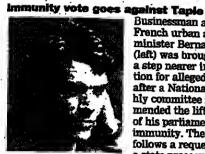
FINANCIAL TIMES

THURSDAY NOVEMBER 18 1993

Belgian austerity plan prompts falls in interest rates

The Belgian government agreed after 16 hours of talks to a wide-ranging austerity pact which will curb social spending and limit wage increases to the rate of the inflation until the end of 1996. The pact also contains fresh measures to tackle rising unemployment. It led to a cut in two leading interest rates and prompted a buoyant response m Belgium's financial markets. Page 16

Strong showing by US housing market: A strong recovery is under way in the US housing market with starts up 14 per cent in the year to October after mortgage rates this year declined to their lowest level in two decades. Page 5



Businessman and former French urban affairs minister Bernard Tapie (left) was brought a step nearer investigation for alleged fraud after a National Assemhly committee recommended the lifting of his parliamentary immunity. The vote follows a request hy a state prosecutor

investigating alleged embezzlement at Testut, a maker of scales and part of the holding company. Bernard Tapie Finance. The full assembly will decide on the recommendation.

UN seeks Bosnian convoys pledge: The United Nations is to seek firm guarantees today from Bosnia's warring factions that its relief convoys will be given safe passage to save hundreds of thousands of people in desperate need of food and shelter. Page 2

Japan's LDP told to oppose reforms: The leadership of Japan's divided opposition Liberal Democratic party urged members to vote today against government plans to clean up the country's political system. Page 6

PLO cash crisis threatens peace process: The financial crisis in the Palestine Liberation Organisation could jeopardise the Israeli-Palestinian peace process, PLO economics chief Ahmed Qurie warned. The PLO has been unable to meet its operating expenses for five months. Page 7

Anti-terror fund launched: Leading institutions in the City of London have helped raise a £1m (\$1.48m) fund to reward infor on IRA attacks on economic targets. Page 16

Tough US line on China trade: US officials say they are ready to impose trade penalties on China even though President Clinton has adopted a new policy of closer engagement with Beijing. Page 4; Editorial Comment, Page 15; Survey,

Electrolux, Swedish white goods manufacturer, reported a third-quarter profit of SKr198m (\$24.5m) after financial items from a SKr22m loss a year earlier, reflecting the benefits of a weaker krona.

Heathrow link bidders line up: German, French and Japanese companies are among six bidders for the main tunnelling contracts for the £300m rail link between west London and Heathrow airport. Page 10; Next chapter of the railway children, Page 15

Nutricia profits fear: Shares in Nutricia, Dutch-based producer of baby food, fell sharply after the company said a recall of 1m jars of baby food would affect its 1993 profit forecast. Page

Nicaragua bows to IMF pressure: Nicaragua, under pressure from the International Monetary Fund, will raise taxes or cut spending, paving the way for official finance to the country. Page 5

Magyar Hitel Bank, Hungary's largest . commercial bank, revealed a substantial capital

shortfall and said it was discussing a Ft50-Ft60bn (\$500m-\$600m) government bail-out. Page 17 Senate opposes assault weapons: The US Senate voted to han semi-automatic assault

weapons as part of a hill to fight violent crime. Hunt for Aldeed ends: The UN Security Council voted unanimously to call off the hunt for General Mohammed Farah Aideed, the Somali warlord whose followers were blamed for attacks

on international peacekeepers. Page 7 UK hopes of rate cuts A marked fall in UK inflation last month, together with disappointing growth in shop sales, revived hopes that UK interest rates will come down Pages 8

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South Africa poised to reach deal on constitution

By Patti Waldmei

SOUTH AFRICA was last night on the verge of majority rule as democracy negotiators put the finishing touches to a constitu-tion which will end 350 years of white minority oppression and give hlacks the vote for the first

time in history. By late last night, weary negotiators had reached agreement on all but a few points of the historic 158-page constitution, the truit of years of negotiation. The government ministers met Mr Nelson Mandela, leader of the African National Congress, while he was still serving a 27-year prison term for opposing the racist state.

The constitution, which will remain in force for up to five years, la based on traditional western values which contrast sharply with apartheld, one of the most repressive regimes in history. It guarantees multi-party democracy, equality before the law, fundamental human rights and freedoms, an independent

Matthew Phosa, the ANC's constitutional negotiator, said the 21 parties meeting last night were "digging the grave for apart-

Mr Roelf Meyer, the govern ment's chief negotiator, shocked delegates to the negotiating council when he announced that the government had agreed to a very weak form of multiracial power sharing, a capitulation by the ruling National party.
All parties with more than 5

per cent of the vote will be granted a seat in cabinet in a government of national unity,

with two deputy presidents to be chosen from the two top parties. The president, who is likely to be Mr Mandela, will be elected by the national assembly. The president will try to take decisions by consensus, but he will have the final say where this is not

But the new constitution has powerful opponents, among them the mainly Zulu Inkatha Freedom party of Chief Mangosuthu Buthelezi and the white right wing, led by retired Army General Constand Viljoen. Together, they form the so-called Freedom

Alliance of rightwing parties which poses a substantial threat to the stability of the government which will emerge after elections on April 27 next year.

Mr F.W. de Klerk, the president, has left open the possibility that the Freedom Alliance may ratify the constitution after it has been adopted by the other 21 parties, but this seemed increasingly unlikely.

Concessions were made to the Alliance in last night's debate. including allowing regions to write their own constitutions and requiring a two-thirds majority of the regional house of assembly, the senate, to change the powers of regions. But these did not appear sufficient to hring the Alliance back on board.

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With a low level civil war aiready raging in Natal province between Inkatha and the ANC, and with the right wing heavily armed and well trained, the two could prevent elections altogether unless they are accommo-

Climbdown seals deal, Page 7 Editorial comment, Page 15 South Africa survey, Pages 29-34

Bundesbank attacks EU over plans for spending

By David Waller in Frankfurt

SCATHING attack European Union spending plans is launched today by the Bundesbank, which says they threaten progress towards monetary and political union and will worsen Germany's hudget difficulties.

In its monthly report for November, published as members of the central bank's decisionmaking council meet today in Frankfurt to consider further terest rate cuts, the Bundes. bank cantions that the financial disciplines embraced by member states under the Maastricht treaty could be undermined by the EU's spending.

"The effectiveness of individual countries' monetary policy may e restricted through the increased granting of direct credits and subsidised lending at the community level," the Bundesbank says. This would "scarcely be helpful" on the path to economic and monetary union.

Adopting the tone normally reserved for its critique of domestic spending, it says the EU's budgetary behaviour must be in harmony with broader macro-economic and monetary objectives.

The Bundesbank stops short of urging tha German government to curb its contribution to the EU hudget, but points out that Germany's transfers to the union are set to increase substantially in the context of a projected steep rise in EU spending as whole. Total EU spending on structural measures is set to be Ecul76bn (\$201bn) in 1993-99, compared

with Ecu67bn m 1988-92. It predicts that Germany'a gross transfer of funds to the union will grow from DM38bn

(\$22.4bn) currently to DM52bn in the next five years, an average annual growth of 8 per cent - far higher than the intended increase in German government spending as a whole. Net transfers - taking account of the inflow of funds to eastern Germany - will climb from DM22.4bn in 1992 to DM30bn in

"The increased international demands on the federal republic come at a time when Germany's public sector finances are under considerable pressure as a result of reunification, resulting in a substantial increase in govern-ment spending and indehted-ness," the Bundesbank says.

Germany's role as largest contributor to EU finances may have been justified before reunification, but the Bundesbank argues: it is questionable now, following reunification. Germany is now, in purchasing power terms only the sixth most prosperous country in the union, having been the sec-

ond after Luxembourg. In another part of the report today, the Bundesbank says that economic fundamentals are more important in determining the stability of a currency than institutional arrangements such as the European Monetary System.
Thus tha increased flexibility

in the European exchange rate mechanism brought about hy the move to wider fluctuation bands did not reduce the chances for stable relations between currencies - so long as countries continued to pursue the objective of medium-term economic stability.

Warning on enlargement, Page 2 SPD criticises Frankfurt, Page 3



Bill Clinton limbers up on the steps of the Capitol Building before yesterday's Nafta debate

Passions flare as Nafta vote draws near

By Jurek Martin in Washington

MOVING with all dellherata speed and flashes of passion, the US House of Representatives yesterday approached its climactic vote on the North American Free Trade Agreement

At the other end of Pennsylvania Avenne, emotion of a different sort - harely suppressed elation - was evident as the White House totted op the steady stream of new endorsements for Nafta and calculated, though it would not admit it publicly, that

Mr Mickey Kantor, the trade representative, was among those convinced that the administration's application of maximum political force was on the edge of producing a great victory for President Bill Clinton. Anything bigger than a margin of one

Continued on Page 16

Transatlantic air war flares as UK retaliates against American efforts to undermine BA rights

By Paul Betts, Aerospace Correspondent, in London

THE TRANSATLANTIC air war flared up again last night with the British government threatening to limit US flights to Heathrow in retaliation against efforts to undermine British Airways' rights in the US.

The UK's tough reaction is expected to revive tensions over transatlantic air services and threatens to complicate the already difficult negotiations on a new "open skies" agreement between the two countries. The UK is accusing Washing-

ton of seeking to curtail BA's rights to offer joint code sharing services with USAir, the sixth largest US carrier, in which BA owns a 24.6 per cent stake. Belgian rates cut, Page 16 Code sharing is a growing trend in the airline industry and

enables two airlines to use their respective ticketing codes. This enables an airline to offer a service with a single code even if part of the journey is made on

the other carrier. in the case of the BA-USAir partnership, BA operates the transatlantic legs while USAir serves the US domestic sectors.

UK airlines obtained rights to under the so-called Heathrow Deal negotiated in 1991 which allowed American Airlines and United Airlines into Heathrow, the world's biggest international

The latest row follows an application to the US government by

BA in August to expand its code code share with US carriers sharing services with USAir. After a three month delay, the US announced last Friday it would only give approval for the new BA code sharing services for the next 60 days instead of the usual 12 months.

Continued on Page 16

Paris urges banks to ease squeeze on small companies

By David Buchan in Paris

MR Edouard Balladur, the French prime minister, yesterday asked banks to ease the credit crunch that has pushed many small companies under. The move reflects concern about the weakness of the country's eco-

nomic recovery.
In return, Mr Balladur reviewed with leading bankers their demands for a change in the bankruptcy law to give creditors greater security; an extension of government guarantees on bank loans to small and medium-sized companies; and a cut in the tax on bank deposit interest.

The Association of French Banks, which represents about 60 per cent of all banks in France, defended itself against criticism that banks have been squeezing small companies. It said yester-day that its total loans outstand-

ing at September 30 1993 were 2.5 its which banks can count into per cent higher than a year earlier. But the association acknowl"Banks must play their part in edged that the recession had forced banks to be more cautious in lending to smaller firms, which are more dependent on short-term bank finance than big-

ger enterprises. The government is already in the process of meeting several of the banks' demands. A reform of the bankruptcy law, to give creditors greater protection when a company declares itself bankrupt, is to go before the National Assembly next week. Meanwhile, Mr Edmond Alphandéry, the economy minister, said the government intended to cut the tax on all bank deposit interest, from 39 per cent to 19 per cent. in 1995.

the recovery," Mr Alphandéry told the National Assembly, adding that "it would he very

damaging if a lack of dynamism in our banking sector put a hrake on the recovery which could begin in the months to come." Mr Balladur's caution over interest rate cuts was again evident when he discussed next year's economic prospects with his own RPR party's backbench-

ers earlier this week. "In 1994 France should return to a growth rate which is feebly positive," he said, hardly a ringing reaffirmation of his government's official forecast which is still for 1.4 per cent real growth next year. The Bank of France said yesterday that industrial output "dipped slightly" in Octo-

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money into lower-taxed money market funds rather than depos-CONTENTS Wat Street int. Band Service . Bourses . Intl. Companies18-20.22 American News World Trade News . Managed Funds Surveys South Airca

The 39 per cent tax rate has

encouraged savers to put their

© THE FINANCIAL TIMES LIMITED 1993 No 32,221 Week No 46 LONDON - PARIS - FRANKFURT - NEW YORK - TOKYO

UN seeks to end attacks on aid convoys

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of the century.

THE United Nations will today seek firm guarantees from the three warring factions in Bosnia that its humanitarian convoys will be given safe passage over the coming winter to sava the lives of hundreds of thousands of people in desperate need of food and shelter.

Ms Sylvana Foa, spokes-woman of the UN High Commissioner for Refugees, described tha meeting in Ceneva loday hetween the

as "a last-ditch effort" to ensure that aid would get through.

The lives of as many as 3m people who were beneficiaries of UNHCR aid were at risk as the bitter Bosnian winter has begun to hite with 3 ft(1 metre) snowfalls and temperatures well below freezing point.

"Very soon il's going to be 18 degrees centigrade helow zero," Ms Sylvana told diplomatic correspondents in London yesterday. "The average

Sadako Ogata, and Bosnian adult in the enclaves has by the warring factions against political and military leaders already lost 12 kilos. We are UN relief workers and soldiers, talking about people in a very bad state indeed."

They needed not only food, but huilding materials to provide adequate shelter in towns and villages where many houses and apartments had been destroyed. One of the higgest needs was for plastic sheeting, nails and plywood to give the minimum protection against the elements, as well as coal for heating.

The aid crisis has been compounded by continuing attacks

in one of which a Danish driver was killed last month. That incident led to the suspension of UN aid supplies for the past three weeks hy Mr Boutros Boutros Ghali, the UN

secretary-general. The UNHCR requires firm guarantees that all such attacks cease before resuming its relief convoys.

Mrs Ogata's efforts to get guarantees will be backed up Mr Cornelio Sommaruga, the president of the International

(ICRC), who is also expected to allend the meeting. Lord Owen, one of the two international mediators on the former Yugoslavia, is expected to take the opportunity meet the Bos-nian faction leaders individually. However, there is no intention at this stage to con-

three warring parties for peace negotiations. A Yugoslav war crimes tri-bunal was yesterday officially inaugurated, to attempt to prosecute perpetrators of mur-

vene a joint meeting of the

Committee of the Red Cross der, rape and enforced expulsions in Europe's bloodiest conflict since the second world war, writes Ronald Van de Krol in The Hague.

The 11 judges of the international tribunal were sworn in at the International Court of Justice for an initial period of

Doubts have already been raised about the effectiveness of the UN-sponsored tribunal because it will not try suspects "in absentia", and because UN troops on the ground have no

NEWS IN BRIEF

French MPs rule against Tapie

A FRENCH partiamentary committee yesterday recommended that the national assembly waive the immunity of Mr Bernard Taple, the embattled businessman and former minister, to answer allegations of fraud, writes David Buchan in Paris.

allegations of fracti, writes have been at the farts.

The full assembly is expected to decide next week whether to follow the committee's recommendation and allow Mr Table, who won election as a left-wing deputy in the Marselles area less march, to be investigated for alleged irregularities in campaign finance and in the diversion of corporate funds of a company called Testut to Bernard Taple Finance SA and to Ciyunique. Marseille, Mr Tapie's football team.

Mr Taple faces a second request to have his partiamentary immunity lifted over the investigation of alleged bribery of Olym-pique-Marseille's football opponents. That request will, however, have to be handled by a separate parliamentary inquiry.

Paris plea over unpaid phone bills France's Senate yesterday called on government ministries to settle unpaid telephone bills totalling more than F772in (\$22m)

Reuter reports from Paris. The upper house passed an amendment to the 1994 budget calling on ministries to pay off arrests to belp the debt-burdened

state phone company, France Telecom.
It said that the biggest culput was the laterior Ministry, but even the Telecommunications Ministry itself owed money for

Romanian optimism on IMF loan

Mr Mirces Coses, Romania's deputy prime minister in charge of economic reform, said yesterday a breakthrough had been made in talks with the international Monetary Fund for a new standby

in talks when the international accessory runo for a new significal arrangement, writes Virginia Marsh in Sucharest.

Mr Cosea, who returned to Romanda yesterday after 18 days of talks in Washington, said he expected a letter of intent would be signed after an IMF visit to Bucharest at the end of this month. Romania has received no cradits from the DAF this year after falling to meet its final performance criteria under a 1992 according ment and due to disagreements with the fund over terms for a

The sticking point in negotiations has been the Ro government's unwillingness to liberalise the foreign exclision

The black market rate for the leu is around 40 per cent lower than at official currency suctions. Local bankers estimate that the daily official auction accounts for only around 10 per cent of

Brussels begins social policy talks

The European Commission yesterday basisched a four month consultation process simed at inspiring far-reaching reforms of social policy in the European Union, writes Andrew Hill in Streebourg.

Mr Padraig Flynn, the social affairs commissioner, said the aim was to find ways of reforming the policy against a background of economic difficulties. "We need continuous economic growth, and we need to have more flexibility and competitiveness. But economic growth must go hand in hand with social progress," he

The Commission yesterday published a green paper on the options for social policy and invited ideas or suggestions before the end of March 1994. Brussels hopes to produce concrete proposals for action in the second half of next year.

Poland makes pledge on reforms

Poland's new left-of-centre government has told the IMF it intends to continue with free market reforms to achieve financial

stability, writes Christopher Bobinski in Warnew.
"I'm encouraged by what I've heard," Mr Richard Erb. IMF deputy director, said yesterday after two days of talks with senior officials. Mr Erb is the most senior western financial official to visit Poland since the election two months ago won by the former communist Left Democratic Alliance (SLD) and the Polish Pees-

Mr Erb warned that "it is important to continue with a strong budget policy and there is a need for further progress on lowering

Mr Erb was speaking after the government had said that the budget deficit next year would reach no more than 5 per cent of GDP, with inflation expected to reach 26 per cent.

Armenia to issue its own currency

Armenia, one of the smallest and poorest of the 12 members of the Commonwealth of Independent States, says it will issue its own currency, the dram, leaving Belarus and Tajikistan as the only republics commuted to keeping the Russian rouble as their own currency, writes Leyla Boulton from Moscow. Armenia will receive francial support for the Russian rouble as their own currency, writes Leyla Boulton from Moscow.

Plan for European security conference soon

THE European Union plans to host a Buropean security conference in the first half of 1994, aimed at settling latent frontier and minority problem in eastern Europe, diplomats in Paris said yesterday, writes David Buchan.

Plans are far advanced for the 12 members of the European Union to nse their Brussels summit next month to launch the initiative for a European "stability pact," first hroached several months ago hy France, the diplomats claimed.

They described the plan as "an exercise in preventive diplomacy."

nic and border problems in east European countries that "have a vocation to join the European Union or be very closely associated with it," rather than existing conflicts in the Balkans or the Cancasus.

Invitations to attend the conference would probably go to members of the Conference on European Security and Co-operation, including the US, Canada and Russia, but excluding those in tha Cancasus and central Asia. However, the geographical scope of the "stability pact" would be limited Poland. Hungary, the Czech Republic, Slovakia, Romania, Bulgaria and the three Baltic republics.

The planned EU initiative would take the form of an opening conference, followed hy hilateral negotia-tions between East European countries on "good neighbourly" accords. Such agreements would form part of the "stability pact" which, if all went well, could be adopted by a winding-up conference in 1995. The final document would be deposited with the CSCE.

The Belgian presidency of the EU had sounded possible participants in the conference and drawn a generally favourable reaction, the diplomats

claimed. Hungary was described as being the most enthusiastic about the idea because of the possibility of improving the lot of the large ethnic Hungarian minorities in Romania

and Slovakia. A key doubt had been the possibility of whether Russia would want to deal with the issue of the large ethnic Russian minorities in Estonia, Latvia and Lithuania hilaterally with those new Baltic republics. But President Boris Yeltsin was said to have recently confirmed to Prime Minister Edonard Balladur, who first raised the stability pact idea in April, that

Russia would negotiate minority issues in the Baltic region in a multi-The stability pact is designed to be on the Twelve's first joint foreign policy initiatives since their Mass-

tricht treaty came into force this month. According to diplomats here, the Twelve hope the prospect of entry into the EU will serve as a political incentive for East European countries first to settle differences among themselves. "But the stability pact is not a strict precondition for East European countries joining the EU"

Claes warns on talks over EU enlargement

By Andrew Hill

TALKS ON reforming the decision-making structure of the European Union should not he mixed up with enlargement negotiations, the Belgian presidency of the EU said yesterday.

You can'l do the two [at once]: a choice has to be made." Mr Willy Claes, Belgian foreign minister, told the European Parliament yeslerday.

The Union has set Itself a tough timetable of finishing negotiations with the four candidate countries - Austria, Finland. Sweden and Norway - by the beginning of March 1994, in the hope that they will be able to join the EU by the beginning

But the parliament is concerned that the addition of new member states could hinder EU action, unless substantial areas such as majority voting hy ministers, the number of European commissioners, and the composition of the threecountry "troika" which carries out foreign policy missions on behalf of the EU.

Smaller members of the EU have frequently voiced concerns that reforms - particularly of the existing weighted

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EDWARDIAN ORIGINALS, the design itself is entirely unique. It is made from high quality stainless steel superbly polished to

voting system - might simply mean that they are railroaded into decisions by larger countries, which have more votes. But certain MEPs helieve that reform should be tackled as soon as possible, to avoid

confusion later. Mr Jean-Louis Bourlanges, a French conservative MEP, yeslerday warned against using the argument that small member states had to be defended as "an excuse for not doing

anything. The parliament last night voted in favour of a resolution calling for institutional changes to "accompany" enlargement, including greater use of an improved system of weighted majority voting. These changes "must he incorporated in the accession trea-

ties," said the resolution. Mr Claes said he would draw the attention of his fellow forreforms are made in sensitive eign ministers to the Parliament's resolution when they meet on December 6 and 7.

In theory, MEPs have the power to block the accession of new EU members but sources close to the enlargement negoliations said yeslerday they helieved the parliament would be reluctant to hold the accession process to ransom over institutional reform.

THE ORIGINAL DALVEY **BUSINESS CARD CASE**

Oslo may reach membership compromise on control of energy

Norway's PM optimistic on EU

By David Marsh

NORWAY has held out hopes for a compromise on the diffi-cult question of aligning its laws on oil and gas licences with the proposed new European Union energy directive.

Mrs Gro Harlem Brundtland, the Norwegian prime minister, said she was optimistic of negotiating an agreement hy next spring on Norwegian membership of the EU. This would allow the issue lo be put to a referendum in Nor

'We will only join the European Union if we feel we are welcome' Brundtland

way next autumn, as part of the proposed accession of Austria, Finland, Norway and Sweden on January 1, 1995

In an interview in London with the Financial Times, she stressed that Norway would join the EU only if the other countries of western Europe adjusted some terms of membership to Norway's special

The EC needed the "political will" to accept that Norway's geographic and economic conditions required adaptation in the fields of fisheries, agricul-

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Brundtland: the EU must see Norway's resources as a special

"We will join only if we feel we are welcome - if other

case because of geographic and economic conditions Antonic Astronomic Conditions Norway is different (from else-

right to 50 per cent participa-tion in exploration of oil and gas fields. Additionally, the EU wants Statoil to give up its role managing the state's financial energy resources. Mrs Brundtland said, how-

About 60 per cent of Norweg-

ians are against participation in the Union, according to

recent opinion polls. This makes Norway by far the most

sceptical of the four European

Free Trade Association (Efta)

A crucial part of the negotia-

tions centres on the question

of Norway's control over its oil

Norway has been allowed to take part in EU discussions on

a proposed directive to

increase competition in the

energy sector which would

require changes in the coun-

try's present laws on oil and gas field licences. However, it has been unhappy about pro-posals under which Statoil, the

national oil company, would

no longer have an automatic

and gas resources.

countries negotiating to join.

ever, that a compromise was

possible here.
"If we open for Statoil to be put in an equal situation as far as licences are concerned, then that could be acceptable if we could keep the logical situation that Statoil manages the present state participation. We are

where in the EU)," she said. Mrs Brundtland's minority looking to see if we can find receiva financial support from the IMF for the switch. countries see that the scene in Lahour government is itself Telecoms groups to step up outsourcing

By Andrew Adonis

THE BID by European telecommunications operators to develop a large-scale husi-ness from "outsourcing" the telecoms needs of multinational companies intensified this week with the European Commission's clearance of a joint venture to service the international financial services

The Financial Network Association, a joint venture compublic telecommunications operators, six of them European, was cleared by the Commission on condition that its services were not crosssubsidised by revenue from

monopoly operations.

The FNA is the latest of a

succession of loint ventures in the last two years intended to tap the international outsourcing market. Europe now has at least four alliances targeted at the market, with AT&T, the US giant, set to launch its "Worldsource" outsourcing venture in Europe next year.

The European participants in FNA are Mercury, the UK subsidiary of Cable & Wireless, Deutsche Telekom, France Telecom, Belgacom of Belgium, Telefonica of Spain and Italcahle of Italy. Other members include MCI, the second largest US long distance carrier, KDD of Japan and Telstra of AustraThe company will be offering specialised international network services to the financial sector, in particular high-capacity networks for the conveyance of data and image.

Mr David Bland, FNA's general manager, said: "We will be providing connectivity, and a seamless service, to a market under-provided for at the moment." The alliance will be offering "managed bandwidth" for services largely designed by

The FNA faces strong competition not only from other outsourcing ventures, hat also from Swift, the body jointly owned by international banks to manage their major network functions.

The FNA reflects the growing complexity of international telecommunications alliances. All of its members also belong to others alliances, some of which are competing with fel-

MCI, the US long-distance carrier, formed a joint venture this summer with BT, with whom Mercury competes in the UK; while Mercury's parent, Cable & Wireless, has a 24.5 per cent stake in Optus, the main competitor to Telstra in Australia.

Technology transfer is a very complex issue - the agreements run to nearly 100 pages," says Mr Bland, who is also an MCI executive. The size of the outsourcing

market is unclear. Financial institutions are among the highest corporate spenders on telecoms, but they have sophisticated networks and managers of their own.

Mr Ian Moore, director of the financial services group of the UK. Telecommunications Managers' Association, said: "I don't believe there is going to be much of an outsourcing requirement. For truly international institutions, belecommonications are strategic; for the rest, their international

requirements are minimal." Mr Bland said FNA bad received expressions of interest from "several very large companies," but declined to name

DANISH LOCAL ELECTIONS

Coalition parties take a beating

By Hugh Carnegy and Hilery Barnes in Copenhegen

DENMARK'S coalition government parties have taken a beating in local gov-ernment elections, which showed a surge io support for the opposition Liberal Party. headed hy former foreign minister, Mr Uffe Ellemann-Jen-

The Liberals won 27.1 per cent of the vote against 15.8 per cent in the last election to the Folketing (parliament) and 17.8 per cent in the 1989 county council vote.

The results are a pointer to the general election due before the end of 1994 in which the Liberals are set to lead the opposition challenge to the

Social Democratic-led coali-tion, headed by Prime Minister Poul Nyrup Rasmussen. Mr Rasmussen said vesterday he was satisfied with the

Liberals are set to lead the opposition challenge

result, which "shows that people are beginning to see the results of the government's policies."

The Social Democrats won 34.4 per cent in the county council elections compared with 37.4 per cent in the 1991 Folketing elections and 35.4

present four-party coalition were disastrous. The Centre Democrats won 1 per cent compared with 5 per cent in the 1991 Folketing election; the Christian People's Party went down to 1.6 per cent from 2.3 per cent.

The Centre Democrats would lose all their nine seats and the Christians their four seats in the present Folketing if Tuesday's result were repeated in next year's election. The fourth coalition party, the Radical Liberals, did better, scoring 3.9 per cent compared with 3.5 per cent in 1991.

The Conservatives, aiming

to form a coalition with the Liberals after the next parlia-But results for two of the mentary election, went down small centre parties in the to 12.8 per cent from 16.0 per cent in 1991 and the rightwing populist Progress Party scored 5.1 per cent, down from 6.4 per cent in 1991. On the far left, the Socialist

People's Party scored 9.1 per cent, up from 8.3 per cent in The Social Democrats have led the coalition since January when Mr Poul Schlitter, who

was conservative prime minister since 1982, resigned. Mr Ellemann-Jensen said yesterday the signal from the local elections was that "the voters found it muresonable to switch governments with-

out a parliamentary election."

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which involve the construction of more than 20 reactors. At the very least Russia is likely Mr Rémy Carle, chairs

Mr Remy Carle, chairman of the WANO governing hoard and deputy general manager of

economy, supplies which the nuclear industry

fuels and other factors

to need World Bank help if it is In the Ukraine, unable and Electricité de France, told the

caused jobs crisis

By Quentin Peel in Wiesbaden

LEADERS of Germany's opposition Social Democrats (SPD) yesterday stepped np thair criticism of the monetary policy of the Bundesbank, accusing it of causing "hundreds of thousands" of job losses in German industry.

At the annual conference of the SPD, they called for a "more appropriate external value" of the D-Mark to promote jobs, but denied that they were seeking an outright devaluation of the national

phone

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At the same time they warned of the need for "mas-sive cuts" in public sector consumption in the medium term, in order to bring the country's ballooning national debt under

And they gave strong sup-port to plans for a Europewide atrategy on economic growth and job creation, calliog for the proposals drawn up by Mr Jacques Delors, president of the European Commis-

Mr Oskar Lafontaine, deputy leader of the SPD and party spokesman on the economy, rounded on the Bundesbank in a statement of party strategy on job creation, intended as tha basis of the next year's election platform. He said the high interest rates imposed by the central bank had made tha

D-Mark too strong.
"We should not always believe in the absolute wisdom of the Bundesbank," he told the party conference in the spa town of Wiesbaden. "It was a great mistake to have raised interest rates once again, at the beginning of the recession. That has cost us hundreds of thousands of jobs, because exports have collapsed."

He said that the effective. revaluation of the D-Mark against other European currencies by some 10 per cent had the same effect on German

export prices as a wage-increase of 33 per cent. His extraordinary attack, in a country where the actions of the central bank are mainly regarded as beyond criticism, was immediately backed by Mr Rudolf Scharping, the SPD

party leader.
"It hits the nail on the bead,... especially in the European context," he said. "When I see Freoch economy with our highinterest rates, I must say that was not clever. That was a policy focusad on our own oational navel, paying attention only to our own domestic conditions." Mr Scharping denied that the party was calling for a devaluation of the D-Mark, in a resolution seeking "lower interest rates and a more appropriate external value of the D-Mark.

Mr Lafontaine warned tha party that it would have to take drastic action to control public expenditure if it wins the elections next October, by seeking to shift spending from consumption to job-creating Investment. He stressed that the party intends to keep the growth in public spending below the nominal growth of the gross domestic product, in a toog-term strategy to cut the

SPD says Naples to name successor to the mob

Robert Graham reports on a vote that will determine who will replace the disgraced former city bosses



in Naples have given the ultimate accolade to Antonio Di

Pietro, Italy's

Municipal beat known
anti-corruption
magistrate. As
the traditional nativity figures
come on the market for Christ come on the market for Christmas cribs; his effigy has been included alongside the wise men and shepherds.

When Mr Di Pietro visited

the Naples magistrature this week the throng of well-wishers was so targe he was obliged to leave through a side entrance. The man he came to interrogate. Mr Francesco Di Lorenzo, a former Liberal health minister and one of the city's former political bosses, also had to leave by a side entrance - to avoid a hostile crowd.

The law has suddenly become a hero in this city with

become a hero in this city with a reputation for cheerful anarcby and bonouring the law merely in the breach. In less than 12 months a once impreg-nable political clique of mainly Christian Democrat and Socialist politicians has been discredited and bumbled by revelations of bribe taking on a scale unparalleled alsowhere in Italy. Mr Di Lorenzo this week

was even offering to hand back STREET sellers LAbn (£1.6m) taken in bribes. But if the traditional political bosses have been forced to the sidelines and face jail, no clear successor has emerged to run this chaotic sprawling metropolis, which is due to host the summit next July of the Group of Seven leading industrial nations. The big test comes this weekend when Naples' 960,000 voters, along with nearly a quarter of the Italian electorate, go to the polls to elect a new municipal

> Opinion polls auggest that the four parties long associated with governing Naples - Christian Democrats, Socialists, Libarals and Social Damocrats - can scarcely muster 20 per cent of the vote against 60 per cent bought with political patronage in previous elec-tions. Their candidate for mayor, Mr Massimo Caprara, a former communist and elder statesman, is trailing fourth. The contest has narrowed

administration.

down to Ms Alessandra Mussolini, grand-daughter of Il Duce, who is running for mayor on the neo-fascist MSI ticket, and the veteran former communist, Mr Antonio Bassolino, the mayoral candidate of the Party of the Democratic Left (PDS). Ms Mussolini, elected as a



Alessandra Mussolini: neo-fascist candidate for mayor of Naples

ginally ahead in the polls. Her campaign of photogenic smiles and bold talk of rediscovering the "real Naples" has little to do with her success. She is a political lightweight riding on the back of nostalgic evocaLoren's close Identificatioo with Naples. She has begefited from the MSI's strong local roots and the party's distance from the various corruption scandals that have seen 60 of

lors implicated. Ms Mussolini expenses. The main municipal has also picked up support services are in chronic deficit, switched from the old ruling parties. The police meanwhile believe the vote cootrolled hy organised crime, estimated to number \$0,000, will swing behind Ms Mussolini.

The PDS, backed by a leftist alliance, is campaigning hard on promises to restore the rule of law and make Naples work. "From the traffic to industrial production, from the schools to the municipal apparatus, Naples today is on the edge of collapse . . . In all these areas the mayor has to and can do something," says Mr Bassolioo of his programme 'My Naples'. In the partial municipal elec-tions of last June, PDS-hacked administrations won eight out

of 10 municipalities in the Naples area, long dominated by Christian Democrats. In Naples itself, PDS supporters hope enough voters will recogoise the city's problems are so dramatic that a Mussolini vote would only make them worse. Naples has been under spe-

cial administration since the council was dissolved in July and the city declared hankrupt. The 1993 hudget had heen drawn up with creative accounting that grossly overestimated sales of municipal property and tax collection while uoder estimating

and all the parties are promising varying forms of privatisa-

Mr Bassolino has produced a By Robert Graham in Rome brave 100-day action plan to end years of deliberate municipal neglect in the water supplies, traffic control, accountancy standards, supervisioo of cootracts and building licences and schooling. Naples has school truancy rates as high as 40 per ceot io some areas, which both influences, and is influenced by, the high instance of juvenile crime.

A combination of low productivity, political patronage, the presence of organised crime and poor infrastructure have long frightened away investmeot.

Recession has made matters worse as have cuts in central government transfers. As a result Naples has 350,000 unemployed, close to 30 per cent of the workforce. The sole element that thrives is the contraband and drugs trade which remaio tolerated in part because of the income gener-

Against this hackground, Sunday's vote will mark either the beginning of an attempt to or a further stage in its

Lombard League MP quits over probe

MR Giuseppe Leoni, one of the most prominent parliamentarians in the populist Lombard

Mr Leoni has been under investigation since last week for allegedly failing to declare L10m (£4,000) worth of campaign contributions to fight his Varese. He announced his resignation yesterday to clear his name, although he had been urged to remain hy Mr Umherto Bossl, the League leader. Mr Leoni was one of the with Mr Bossi. The sum of money involved is the smallest known to have been investigated hy magistrates in the

corruption scandal. The League is convinced the move is part of a campaign to paint the party in the same colours as the rest of the political establishment, which has been discredited by the scandals. Almost the entire media as well as the main parties, are on the offensive against Mr Bossi and the League, claiming the party risks forcing the

Brussels approves Ekostahl sale plan

THE European-Commission yesterday set the scene for today's crucial ministerial meeting on testructuring the west European steel industry by approving amanded plans for the sale of Ekostalil, the state owned east German steelmaker."

the Commission also attached strict safeguard clauses to the plant to dispel private steelmakers fears about distoitum of the market.

River the private Italian steelmaker is to buy 60 per cent of Ekostahl from the Treu hand privatisation agency, and build a new mill with a capacity of 900,000 tonnes. But Riva has now also pledged to close one of its own east German mills, cutting capacity by a fur-ther 320,000 tonnes by mid-1994. State subsidies to Ekos tahl will be reduced from tm (£350m) to DM813m.

The Commission said it was now up to EU industry ministers, meeting in Brussels today, to tackle the steel crisis by unanimously approving plans for restructuring east German, Spanish, Italian and Portuguese state steel producers. Only the Italian government has failed to agree with the Commission on an accept able balance between state aid

and closures. Officials are sceptical about the chances of a breakthrough today, but if the Commission's proposals are implemented the EU's state-owned steelmakers will have to cut capacity by a total of 5.5m tonnes, and will be allowed to receive Ecu6.8bn



Talks on Irish wage pact falter

IRELAND faces the prospect of a wages free-for-all following the breakdown of talks yesterday between tha government and the Irish Congress of Trade Unions (ICTU) over a new centralised pay bargaining

greement.

ICTU yesterday notified its affiliated unions to prepare for a return to free collective bargalniog, baving failed in its attempts to persuade the government to remove an unpopular 1 per cent incoma levy over the next two budgets.

For the past six years, public and private sector pay rises have been regulated through tripartite agreements between the government, employers' organisations and ICTU, the latter representing the bulk of organised labour in the country. The first agreement, known as the Programme for National Recovery, ran from 1987-1990 and the second. known as the Programme for Economic and Social Progress

(PESP), ran from 1991 and expires at the end of this year. The two agreements have been largely responsible for the economic stability in Ireland over the past six years, peace on the industrial relations front, and the achievement of

one of the best economic growth rates and one of the lowest inflation rates throughout the European Union.

Mr Bertie Ahern, tha finance minister, introduced the 1 per cent income levy in last January's budget to help meet pay deals in the public sector and raise funds for a job creation programme. Its critics have argued that the levy amounts to a 2 per cent increase in the basic income tax rate, in that it is calculated as a 1 per cent of the whole income, without any

allowances. Mr Peter Cassells, the gen-eral secretary of ICTU said the levy "struck at the heart of the PESP, acting as a clawback of pay deals that had already been settled and so our members have lost confidence in

The levy is worth some I£145m (£138m) per year to the Exchequer, and Mr Ahern has said that even if the levy were to be removed, in time, it would have to be balanced by tax increases elsewhere. Mr Abern said earlier this week that the government is anxious to enter into a new agreement, but not at any price".

Public sector pay has risen by 46 per cent since 1987, while

inflation has risen by only

around 15 per cent.

The only walls left, as you know, are the ones in your head. A new chapter for Europe was opened by the destruction of the Berlin Wall. The next will surely

politics, society, culture and all that matters. The European' is your weekly confirmation that in place of bricks and morter, there are now words and ideas. Europe is changing. Are you standing still?



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existi

Clinton and Jiang meet tomorrow at Apec talks

US waves stick at China

George Graham in Seattle

US officials insist they are ready to impose trade penalties on China even though President Bill Clinton has adopted a new policy of closer engage-

ment with Beijing.
Mr Charlene Barshefsky,
deputy US trade representative, listed three areas of trade negotiations in which the US expected China to take action in the near future: market access, textiles, and intellectual property rights.

These issues and China's growing trade surplus with the US were due to be raised yesterday by Mr Warren Christo-

By George Graham

TRADE and foreign ministers

from the Pacific region gath-

ered in Seattle yesterday for their annual Asia Pacific Eco-

nomic Co-operation meeting still divided over how far to go in their efforts to kickstart the

Uruguay Round of global trade

Apec officials said they had still not resolved whether the ministers should simply issue

a statement calling for a suc-

cessful agreement to liberalise

rules on trading and invest-ment within the General Agreement on Tariffs and

Trade, or should show their

commitment to breaking the logiam at the Gatt talks in

Geneva more forcibly by offer-

would be the collective willing-

ness to go the extra mile and

put additional tariff reduction

offers on the table in Geneva,"

said Mr Tony Miller, Hong

Kong's director-general of

Apec countries have been hold-

ing talks in Seattle since the

weekend to prepare the ground

for the meeting, but had not

been able to resolve this issue

before their ministers arrived

for an opening dinner last

night and the start of serious

The Apec meeting is taking

world trading negotiations,

US strong-arm tactics to press

other countries to open their

markets to trade in financial

services are in danger of back-

firing as Uruguay Round nego-

tiators in Geneva threatened

this week to react by entirely

Other countries are simply

going to follow the US lead and

withdraw their offers in finan-

cial services," a senior negotia-

tor in the General Agreement

on Tariffs and Trade said ves-

terday, "It would be absurd for

the US to throw everything

aside because of problems it

has with a tiny number of

developing countries whose

share of financial services busi-

US hanks, brokerages, and

insurance companies would be

among the main beneficiaries

ness worldwide is negligible."

withdrawing conditional mar-

coming immediately after last complement the Catt.

By David Dodwell, World Trade worldwide of more open finan-

withdrawn.

discussions this morning.

Editor, in Geneva

ket-opening offers.

Senior officials from the

The clearest demonstration

ing further tariff cuts.

and Alex Nicoli

Apec nations

at odds over

Gatt talks

pher, US secretary of state, with Mr Qian Qichen, China's foreign minister, as part of a series of bilateral meetings taking place during the annual ministerial meeting in Seattle of the Asia Pacific Economic Co-operation grouping.

Trade issues, as well as human rights and nuclear nonproliferation, are also likely to be raised tomorrow when Mr Clinton meets President Jiang Zemin in Seattle.

A senior administration official said, however, that the Seattle meetings would not he negotiations but an opportunity to explain Mr Clinton's new two-pronged epproach to China: that the US recognised

night's vote in the US Congress on the North American Free

Trade Agreement and less than

a month before President Bill

Clinton's fast-track negotiating authority for the Uruguay

Round expires on December 15.
At the least, officials said
they expected the ministerial
meeting to issue a declaration

urging more progress on the

Ms Charlege Barshefsky,

deputy US trade representa-

tive, said: "It is the view of

Apec senior officials that sub-

stantial impetus needs to be given to the Round in order for

it to be concluded by the dead-

"I expect a declaration on the Uruguay Round, I would hope and expect that that dec-

laration would be extremely

Nevertheless, some officials

acknowledged that anything

Apec might say or do would be

largely peripheral to the main

issues that are still holding up

conclusion of the Round, many

of which lie between the US

Some countries left out of

Apec have questioned whether

Mr Clinton's new emphasis on

huilding trading ties to the

Asia Pacific region represented

an effort to build a fortress-like

trading bloc incompatible with

But US officials say a

strengthened Apec would be "a

hullding block, not a trading

out other nations and would

clal services markets and so

would be main casualties if

market-opening offers were

controversy in the final stages

of negotiation of the Uruguay

round talks on world trade lib-

eralisation by demanding an

exemption in financial services

from the obligation to offer

most favoured nation status to

all-comers. The US plans to

restrict full MFN access to its

financial services markets to a

small group of industrial coun-

tries that have similarly liberal

banking and securities regimes. Other countries will

have MFN rights limited to the

rights that exist at present.

improved access would depend

on progress in liberalisation in

Observers have interpreted

the move as a US effort to win

their own market.

US officials have aroused

US services push may backfire

improved market-opening their financial services sectors

Gatt's multilateral approach.

and the European Union.

line of December 15.

Gatt talks.

China's importance and did not wish it to be isolated, but that serious points of disagreement needed to be addressed.

The official said: "We can either stand outside and lob our concerns over the wall, or we can engage face to face with the Chinese leadership and make clear that we recognise that China is a great country with enormous potential, but that for our relationship to continue to progress there has to be sensitivity on their part

to the concerns that we have." Ms Barshelsky said that on market access, China had agreed last year to reduce import restrictions but its

"offers.... have been inade-

action after December 31 if its requirements were not met.

On renewal of a bilateral textile accord which also expires December 31, she said receot discussions had been more productive. However, agreement required significant movement by China, and the US was pre-

pared to take unilateral action. On intellectual property rights, Belling had enacted a world class" series of laws "hut there is no enforcement". Ms Barshefsky said. "This is a very urgent issue which requires immediate attention by the Chinese," she said, referring in particular to pirat-

Investment and trade links boosted

By Alexander Nicoli

OFFICIALS from 15 Pacific countries yesterday agreed on a new trade and investment framework which will mark a modest step towards closer co-operation without setting the stage for creation of an Asian trade bloc.

A declaration expected to be approved by trade and foreign ministers of the Asia Pacific Economic Co-operation group, who hegan their annual meetlog last night, will establish a permanent committee on trade and investment.

Ms Charlene Barshefsky, deputy US trade representative, said the new framework "will take Apec heyond its cur-rent role as a facilitation and co-operation forum to a policymaking role, to be expanded through consultation and consensus hy its members". The committee, she said, would he charged with finding "ways to expand trade, create a more attractive investment climate and facilitate the flow of goods, capital and technology across the region".

Mr Kim Chulsu, South Korea's trade minister, said: "This is a mandate for a more active approach to advancing regional co-operation."

However, according to participants, the discussions on the new framework revealed vigorous disagreement about Apec's future role, some mem-In which to discuss trade liber- of the report.

Japan, Korea, India. Singapore.

Malaysia, Thailand, Indonesla

wants to eat it too," said one

Asian negotlator said: "It

wants other countries to accept

multilateral ohligations to

open their financial services

markets, but wants to reserve

its power to exert hilateral

pressure. If it does not change

its mind, we would have no

A senior Indian diplomat

noted: "Just as the US is get-

ting vastly improved offers in

financial services, it is putting

everything in jeopardy with their two-tier MFN proposal."

threats as no threat at all: they

see no prospect of seeking a

presence in the US banking.

securities or insurance mar-

kets, and are offering to open

Many countries see the US

choice but to do the same."

The US wants its cake, and

and the Philippines.

An Australian official said the new committee was "a step The committee's work would

Differences of view over Apec's future role were also evident in the officials' discussions on a report hy an emi-nent persons group headed by Mr Fred Bergsten, a US economist. The report, to be submitted to the ministerial meeting. sets ont a series of steps towards creation of a Pacific economic community.

Mr Mlller said the report was a "truly visionary plece of work". However, some members had reservations about the path it recommended. Ms mal. bureaucratic structures | Implement "selected aspects"

access to US and EU markets

for products like textiles and

farm goods. As it has become

increasingly clear that the US

and EU are unlikely to

improve offers in these areas,

so developing countries have

become more reluctant to keep

financial services offers on the

A spokeswoman for the US

Coalition of Services Indus-

tries, which has lobbied hard

for the past six years for a big

financial services package in the Uruguay round, said yes-

terday that she was "surprised

disappointed"

responses: "We have been very flexible, and have changed course as the world has said it

is unable to live with the pro-

posals the US has put forward.

It is late in the day to be doing

this kind of thing, and I am not

sure what pulling offers off the

table will accomplish."

offers from countries like as a necessary price for better

ently a majority - preferring to maintain a more liheral, informal approach.

The resulting declaration will represent only a mild institutionalisation of Apec. Mr Tony Miller, Hong Kong's director-general of trade, said It "binds nobody but sets out a collective view." One of Apec's advantages over other bodies, he said, was its informal atmo-

of considerable significance" although he conceded that "to an ontsider it might not seem to amount to much". He said the idea had been too sensitive to raise when Apec was founded only four years ago. include harmonisation of customs procedures, a database of regional tariffs, and a study of investment regulations.

Rolls-Royce in third Indian power contract

GREECE'S new Socialist government is reviving a much-delayed project to build

technology and equipment. The plant at Thisbe, 120km from Athens, would produce 600,000 tonnes of alumina a The contracts have been year from locally-mined baux-Ite to supply aluminium plants in Russia.

The industry ministry wants private investors to take a 10 per cent stake in the project. A group of state-owned Russian companies, including several aluminium smelters, would have a 51 per cent stake, with the remainder held by a Greek state company.

Alumina

in Greece

project

revived

By Kerin Hope

Greece,

in Athens

The ministry said it was reappointing as its advisers Salomon Brothers of the US, which worked on the project under the previous conservative government.

The project was halted two years ago hecause of financing problems. Construction of a port for the plant on the Gulf of Corinth near the site was completed hut work on the processing facility failed to start hecause of financing problems.

The Socialist government hopes to obtain some funding for the project from the Delors Il package of structural aid for poorer member-states of the

By Stefan Wagstyl in Bombay and Chris Tighe in Newcastle

NAFTA OPPONENTS: Ross Perot (front), the Texas billionaire and Patrick Buchanan (belt).

right-wing commentor, meet to discuss the North American Free Agreement, before the vote

ROLLS-ROYCE, the British engineering group, yesterday won a £275m order for a power station in the Indian state of West Beneal. It was the company's third Indian contract signed this week and brought the total to £550m.

completed during a week of British business events in Bombay attended by Mr Douglas Hurd, foreign secretary Other companies which announced commercial agreements yesterday included British Gas, the PowerGen generating company, and Aerospace Composite Technologies, a high technology materials manufacturer, which won an

order for replacement wind-

screens for India's Russianbuilt MiG-21 fighter aircraft. Rolls-Royce is to manage the construction of a 500MW coal-fired plant at Balagarh and supply generators from the UK for the Calcutta Electric Supply Corporation, an affiliate of the Calcutta-based R P Goenka business group. The total turnkey contract will be carried out hy Rolls-Royce Power Generation Systems, part of Parsons

Turbine Generators based in Newcastle upon Tyne, on behalf of CESC of Calcutta. Parsons will supply two 250MW steam generators for the three-year project, located on an island in the Hoogli

Yesterday's news follows: Tuesday's announcement by Rolls-Royce Industrial Power Group of two Indian power sta-tion projects worth £385m. Under these contracts The company will build a 200MW gas-fired combined cycle plant at Kakinada in Andhra Pradesh, and participate in a new company, Chandil Power, to build and operate e 500MW

coal-fired power station at Chandil in Bihar. The three contracts give Parsons a total of five new turbine generators to build, providing work into 1996. Rolls-Royce and Goenka have also established a joint venture company to manage the refurbishment of existing power stations, many of which operate far

PowerGen agreed a similar venture with Aditya Birla, a diversified industrial group led by Mr Aditya Birla, which will bid to build new plants as well as upgrade existing ones.

below capacity.

British Gas signed co-operation agreements with the government's Oil and Natural Gas Commission covering technical aspects of oil and gas develop-ment in India and possible joint exploration overseas. Zeneca, the chemicals com-

pany, established a joint ven-ture with FTC, the Indian affiliate of BAT Industries, for a seed technology company.

Kantor expects 'concrete' offers by Apec

THE Seattle summit of the 15-nation Asia-Pacific Economic Co-operation forum will produce "concrete" offers for the bargaining table in Geneva which will help the Uruguay Round towards a successful conclusion by December 15, Mr Mickey Kantor, the US trade representative, said yesterday.

in high spirits and confident of approval by the Home of Representatives of the North American Free Trade Agreement, Mr Kautor said as administration victory on Nafta would provide President Bill Cliaton with "the moral and political authority to go to the Apec and work with his counterparts - and they will

respond". He said he expected further momentum to come from his momentum to come from his meetings with Sir Leon Brit-tan, the European Union's chief trade negotiator, in-Washington next week. "We will get a Uruguay Round [deal]," he said.

Mr Kantor said the US was taking the leadership on trade to grow the world economy and would continue to do so. Vital to this was Mr Chiston's belief in the link between US economic and national security. and between both of those and

Mr Kautor was optimistic. S about US relations with France, which are vitally important to final agreement. He said one "big mistake" the previous administration had made was in not directly engaging with the French. He, himself, has twice met French officials in recent months.

"They have their own interests." he said. "We cannot question their motivations. We

may disagree with their con-clusions, but we don't person-alise this.

In Geneva it has been pre-sumed that the Clinton admin-istration has been distracted by the Nafia battle. Mr Kantor, however, insisted that US offi-cials" have been "busily engaged" in Geneva.

Other US officials say the numerous side deals which gave dozens of congressmen the political cover to support Nafta are not likely to impede progress in Gatt. For example, President Clinton was pressed to seek a 15-year phase-out of textile quotas rather than the 10-year period contained in the

negotiating text. In a letter to textile interests, the president ultimately promised to "achieve the longest possible phase-out" and to ask Mr Kantor to explore the prospect of a 15-year phase-out with nations believed to favour

Mr Clinton promised to ensure that the impact of the Uruguay Round was eased as far as possible, "including spe-cifically addressing the question of gradual and even staging of tariff reductions and quota integration".

Thomson in **UAE** deal

Thomson-CSF, the French defence electronics company, has won a \$100m (£67m) order to supply the United Arab Emirates with its PR4G radio system, writes David Buchan in Paris. The system, also sold to the Netherlands, Spain and Switzerland, will be used in various vehicles, including the Leclerc tank ordered from Giat

Caribbean rum producers seek a fuller EU measure

agreement.

France is being blamed for what is seen as foot-dragging on opening the market further, writes Canute James

ARIBBEAN rum producers have asked the increase the quota for rum they can ship duty free, and then to abolish the quota to end a shortage of the product in Europe.

A senior official of the European Commission said the rum quota would be increased by previously agreed levels next year, and the possibility of abolishing the quota would be studied. The producers say, they need more immediate action to end what they say is the disruption of the market.

The rum producers, part of the African, Caribbean and Pacific (ACP) group of countries, have criticised the EU for being slow to honour legal commitments to react by

to meet the growing demand. They say this is written into the Lomé Convention, a trade and aid treaty between the EU and the ACP. The current quota stands at 220,000 hecto-

"To the extent that the consumption of rum increases significantly in the IUnion), the (Union) undertakes to carry out a new examination of the annual rate of increase fixed by this protocol," says the convention.

hectolitres increase.

Officials from the rum producing countries say that what is seen hy many as the Commisslon's foot-dragging is the result of pressure from France which wants to protect its domestic rum iodustry in Martinique and Guadeloupe, its increasing the access for rum two Caribbean departments.

"Rum is the only industrial product covered by the Lome Convention which is subject to quotas," says Mr Yesu Persaud, chairman of the Caribbean Association of Industry litres a year, following a 30,000 and Commerce. "Because of the quota system, the Caribbean rum industry is now experiencing serious disruption because the demand for rum in the [Union] has been growing rapidly."

Mr Peter Pooley, director general of the Development Directorate of the European Commission, has assured rum producers that the automatic quota increase of 20,000 hectolitres will be effected next year. "In February 1994 we will begin work a report on dismantling the rum quota." he sald. One Caribbean official describes this as "cold comfort" to an industry that had a market "begging for the product but which is being obstructed for reasons known only to themselves" by the EII. Before the Lomé Convention was agreed, rum from what are now the ACP states entered

Demand has been outstripping the quota for some

Europe unrestricted. There were no quotas, although the product was subject to duty. With the first Lome agreement, France insisted on a quota for the quantity of rum that could be imported duty free, and this was written into the current

Demand for rum in Europe has been expanding steadily since 1989 when the EU legislated on the definition of rum, establishing that It had to be made from sugar cane. This destroyed a lucrative market for several other spirits which had been marketed in Europe as rum, and also drove coun-

terfeiters out of the market.

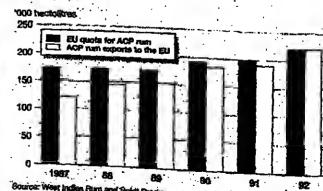
"This growth has continued and is now outstripping the quota we have," says Mr Patrick Mayers, chairman of the West Iodles Rum and Spirit Producers Association. "The quota was exhausted at the end of the quota year which ended in June, and will soon be for the current year."

Mr Mayers says many European importers and distributors have told their Caribbean

suppliers to ensure that the problems of the last quota year are not repeated, as they would not be able to handle shipments which exceeded the quota. Such imports attract a "punitive" duty which makes the product too expensive to be sold, says Mr Mayers. The automatic increase of

20,000 hectolitres which they will get next year is considered by the producers insufficient to resolve the problem. They say that the rate of growth of demand for rum in the EU will soon outstrip the increased quota, and that the situation will become tighter when new members join the Union.

The European market brings the Caribbean producers about \$20m (£13m) a year, and these earnings could increase significantly if access were to be EU rum imports



improved, says Mr Mayers. Rum producers fear that a continued shortage of the product will lead European consumers to turn to other liquor, leaving rum a difficult task in

regaining market share if and when access for the product is increased either through higher quotes or an abolition

itsen



which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is

and western nuclear scientists.

Mr Rémy Carle, chairman of
the WANO governing hoard
tuels a and deputy general manager of Electricité de France, told the

sconomy, supplies of other fuels and other factors over which the nuclear industry has

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Housing market recovers strongly

By Michael Prowse in Washington

Itor

A STRONG recovery is under way in the US housing market following reductions in mortgage rates this year to the lowest level in two decades, figures indicated yesterday.

The Commerce Department said housing starts rose by 2.7 per cent last month and by 14 per cent in the year to October. Officials revised up already strong figures for starts in August and September. Building permits also rose, pointing

to continued strength of starts. Most analysts expected only a marginal increase in starts last month given big increases earlier this autumn. Starts are now running at an annual rate of 1.4m, the highest level since Fehruary 1990, when the previous husiness cycla was approaching its peak

Most of the strength was concentrated in "single family"

from September. Construction of apartments remains subdued, reflecting overbuilding in the 1980s and fewer young

people seeking first homes.

The increase in starts was strongest in the Midwest, where rebuilding after flooding contributed to a 13.3 per cent increase from September. Starts rose only modestly in the west, because the Califor-nian economy remains depressed, and fell in the nor-

The starts figures are the latest in a series of economic sta-tistics indicating that the pace of US economic growth is accelerating after a weak first

 Starting in the new year, changes in the way the US Labour Department estimates unemployment will increase the official jobless rate signifi-

On the new definition, the

homes, which rose 5.8 per cent jobless rate averaged 7.6 per cent in the year to August, compared with the published

Officials said the female job-

to tighten monetary policy. The new series will come into effect with the release on Fehruary 4 of unemployment figurea for January. The changed dafinition could increase the January jobless rate by anything from 0.1 to 1

Mexico's intellectuals win back tax breaks

By Damian Fraser in Mexico City

MEXICO'S intellectuals have won a remarkable victory overthe hardline technocrats in the infinance ministry by gaining exemption from taxes on their

President Carlos Salinas ruled in favour of the intellectuals on the eve of the US congressional vote on the North American Free Trade Agreement, doubtless hoping that Mexico's cultural elite would support him in his continuing quest to integrate Mexico with the US.

Since the 1910 revolution, Mexico's writers and artists have had a strong hold on the country's political conscience. But their tax break was abol-. ished in 1990 by Mr Pedro money, but to filling in long pay taxa. Aspe, the orthodox finance and complicated tax forms. "It and trac minister, and a fervent oppo. will help my mental stability," Mexico."

nent of tax advantages for spe-

cial interest groups.

Ever since, intellectuals from right and left have fought for restoration of the exemption, which they believe is their historic right.

The tax break will help "artistic creation in Mexico, and that strengthens Mexican culture and national identity", a presidential spokesman said. "It is important for a country to stick to its identity and be close to its roots, especially in times of transformation."

The measure was backed by Nobel prize-winner Octavio Paz and the novelist Carlos Fuentes, who agree on little else but their right to be exempt from taxes.

. The writers objected not just to paying the government

figure of 7.1 per cent.

less rate had been seriously under-estimated because many women seeking work had been wrongly classified as "homemakers. Using the revised series, the female johless rate was 6.8 per cent in the year to August, not 6 per cent as previously reported.

The new unemployment series is likely to increase con-cern on Capitol Hill about lack of job opportunities and harden opposition to any early move by the Federal Reserve

said Mr Carlos Monsiváis, a leading left-wing essayist. "I live in fear of the tax collec-

tors. I spent one year trying to understand my forms and could not. I could not sleep."

A presidential aide sympath-ised, and said Mexican writers

were not meant to understand

tax forms. "This will put them

in a better mood and unleash

their creative energies," he

have to steal time from

nowhere to produce a poem, a

work of history, a novel," said

Mr Enrique Krauze, the conser-

vative historian who usually

supports free market econom-

"The creators and authors

Guatemalan reforms agreed

Bolivian

workers

agree to

end strike

BOLIVIA'S government and

over the firing of state work-

ers and agreed to resume talks

on how to sort out the coun-

try's problems, officials said,

The agreement came after

eight weeks of growing labour

unrest which peaked in a national strike on

Monday. The deal was signed on

Tuesday just hours after Bolivia's trades union federation,

the COB, voted to suspend

their indefinite strike which

began at midnight on Sunday.

The new centrist govern-ment, which had said it would

not negotiate while the strike

was on, agreed in return to reinstate 1,100 out of 10,000

workers aacked as part of

plans to modernise the ecoo-

Reuters reports from La Paz.

Gnatemala's President Ramiro de Leon and Congress have reached a deal to reform the constitution, breaking an 11-week impasse that had brought the government to a standstill, Reuter reports from Guatemala City.

Under the agreement, congressional elections due to be held in 1995 will be brought forward as soon as legally possible, new appointments will be made to the judiciary, and a plehiscite will he held to approve the proposed constitutional reforms.

Demianiuk order revoked

A US federal appeals court yesterday overturned the 1987 order nnder which accused Nazi death camp guard John Demjanjuk was extradited to Israel and said government prosecutors committed a fraud on the court in obtaining it, Reuter reports from Cincin-

"As an editor, or if I give a conference, I pay taxes. But if Mr Demjanjuk, 73, was free my work sells a book, I will not hy Israel after courts ruled pay taxes, as has historically and traditionally occurred in that he was a victim of mis-taken identify. He returned to the US in September.

Nicaragua breaks aid logjam

By Stephen Fidler in London and David Scanlan in Managua

THE Nicaraguan government has agreed under pressure from the international Monetary Fund to take measures to unions have defused a conflict raise tax revenues or cut spending, breaking a logjam which had been holding up flows of official finance to the country.

This initial agreement with the fund immediately paves the way for finance from the Inter-American Development Bank and Taiwan totalliog about \$55m (£36.9m). It also clears the way for the arrival next week of a team from the IMF, to negotiate \$25m in concessional funding, and the

World Bank. The IMF has been seeking government savings, either spending cuts or revenue increases, equal to 4 per cent of CDP. Earlier disagreements with the World Bank and IADB, which both saw this as too tight a policy for a wardamaged economy with singledigit inflation, seem to have

If the IMF agrees to provide finance, under an Enhanced Structural Adjustment Facility used mainly by poor countries in Africa, it will clear the way for funds from the World Bank totalling some \$60m, some possible US finance, and some tied

Nicaragua's foreign exchange reserves had fallen close to zero, with imports of around \$800m a year running at four times the level of exports. Inflows of official finance are essential to repleoish reserves, since private investment is almost non-existent, because of the impossibilof enforcing property

Real GDP, annual % change

1984 86 87 88 89 90 91 92

Despite the advances in the negotiations, questions remain about the ability of President Violeta Chamorro's government to deliver on its promises. An earlier attempt to levy a vehicle tax was reversed this year after widespread protests.

The government has been seeking, so far unsuccessfully, to include representatives of the left-wing Sandinistas, the former guerrillas defeated in a 1990 election, in the negotiations with the IMF and World

Mrs Chamorro's government has been paralysed by the collapse of the conservative UNO coalition which swept her to power in 1990. The US suspended aid to Nicaragua last summer hecause of the continued heavy involvement in government of the Sandinistas, described by one US official as running a "state within a state"

More recently, the Sandinistas have attacked government plans to privatise several public utilities and Mrs Chamorro's insistence that Mr Humberto Ortega, hrother of former Sandinista president Mr Daniel Ortega, step down next



Mrs Chamorro's government has been paralysed

year as head of the military. The Sandinistas are also unlikely to find the IMF proposals acceptable. They have been seeking a relaxation of credit constraints which would particularly affect agriculture, and benefit, not coincidentally, many Sandinistas.

The Chamorro government has bad startling success against inflation, hringing it

down to single digits from an annual 33,600 per cent in 1988 and 13,500 per cent in 1990. But with unemployment as high as 60 per cent and poverty worse than anywhere in the Americas except Haiti, austerity is unpopular. "We have just emerged from a decade of war. This policy ignores that," said Mr Oscar Rene Vargas, an

Boost for loans to Latin

By David Pilling In Santiago

STABILITY and economic growth in Latin America is changing the way the Overseas Private Investment Corporation, the US political risk insurer, does husiness in the continent, according to Mrs Ruth Harkin, Opic president.

The organisation, 40 per cent of whose activity is in Latin America, plans to shift from insurance towards loans, raising the amount available for loan guarantees from \$50m (£33.5m) for each project to \$200m. This will enable it to become involved in large projects such as the planned Argentina-Chile gas pipeline.

Compared with much of the group's portfolio, such as the former Soviet Union and Gaza Strip, "this region begins to look stable," Mrs Harkin said. "There is going

to be less demand for insurance coverage hut more for loan guarantees." The organisation expects to offer at least \$1.7bn in insurance, loan guarantees and equity to support US private investment

projects in Latin America this fiscal year,

against \$1,4bn in 1992-93. The figure could be "significantly higher," Oplc sald. "In Latin America our relationship has

matured and we feel comfortable about expanding and changing our role," added Mrs Harkin, who is leading an Opic misslon to Brazil, Argentina and Chile focusing on environmentally-related business.

The Opic delegation, sponsored by 20 US companies including Chase Manhartan Bank, is the first to focus specifically on the environment, a sector growing by 25 per cent a year.



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LDP members told to vote Bolger to form a government against reform proposals

opening the way for them to

Despite Mr Kono's attempt to

proceed to the full

restore party discipline, more than 10 LDP MPs are expected

to vote for the government's

Two to three times that

number are thought to he considering leaving the LDP.

which has 227 seats in the

511-seat lower house. That

age...lt is too late to argue, so

he says gloomily.

Holders

will not argue any more."

He knows the LDP will be

outvoted in the lower house

and fears it will lose "almost

all its urhan seats in the

election to be held next year, if

the coalition manages to field

single candidates under the

constituencies such as his own,

which has more than 500,000

inhabitants, will find it

particularly hard to raise

enough campaign cash to fight

an election, under tough new

to ohtain from companies. So

we will have to rely more on

personal donations, which will

be difficult in the current

atmosphere in Japanese

"Money will be very difficult

curhs on political funding.

By William Dawkins in Tokyo

THE LEADERSHIP of Japan's divided opposition Liberal Democratic party vesterday called on members to unite and vote against government plans to clean up the scandai-ridden political

The call, by Mr Yohei Kono, the LDP president, is unlikely to upset the government's predicted victory in today's parliamentary vote to reform the electoral system and curb political donations.

By William Dawkins

for political reform.

MR KAORU YOSANO, a

member of parliament for the

Liberal Democratic party, was

Mr Yosano, 55, represents

the central Tokyo district

which includes parliament and

the emperor's palace. He is one

of the mainstream of LDP

politicians who will today vote against the government's plans

Mr Yosano, winner of six

elections and former vice-minister of the ministry of

international trade and

industry, argues that the proposed shift from multi-seat

constituencies to single seats

will worsen, rather than

lessen, the corruption which

has discredited the political

an unhappy man yesterday.

proposals to get a four-to-five Tuesday morning. seat majority today, after Later that day, which they pass to the upper house, the final hurdle before becoming law.

The upper house, where the seven-party coalition government also has a majority, is expected to take ahout a month to clear the

Prime miniater Morihiro Hosokawa had boped to reach agreement with the LDP. But he was forced to break with tradition and put the four reform hills to a vote after negotiations broke down on

horoughs are all very well

when each party has different

policies. But the policies of the

LDP age have been carried

over exactly by the the new

government, so people will find

it very hard to differentiate

between parties," he says. This

will intensify what he

euphemistically calls "service

competition".
Instead, he would prefer the

present multi-seat constituency

system to remain intact.

Reform should, for the

curh corruption, he helieves.

moment, be limited to a hill to

"After all, it took Britain 400

years to bring about political

opposition LDP is bleak, Mr

Yosano admits. "At least half

the party membership feels as l

do, but we are being carried

The outlook for the

Emperor's MP wants to keep

hidden competition. Small away hy the wave of the

multi-seat system unchanged

years until last July.
The coalition looked set to Later that day, the bills won a 20 to 19 majority in a

parliamentary committee, hold together in today's vote, despite the fact that amendments, made in an attempt to win LDP support, have offended some members of the Social Democratic party, the largest coalition

> Socialist officials said three to four members might vote against the government despite calls for party unity, but this would not be enough to deprive the coalition of a

society," he says, referring to

The average candidate needs

Y30m (£188,600) to run a 14-day

election campaign, and far

more to finance the months of

preparation required, he estimates. However, Mr

Yosano is unwilling to put a

figure on his own election

expenses. "Do you want me to confess?" he laughs.

Mr Yosano plans, at least for

the time being, to stay loyal to the party and to his LDP faction, led hy Mr Mlchio

Watanabe, the veteran former

foreign minister who opposes

But in the longer term, he admits be might have to rethink his loyalties, "if there

is a big earthquake, I have to

escape one way or the other.

of political corruption.

but says 'I got the message'

PM's party scrapes home by one seat after New Zealand's voters show their weariness with reforms. Terry Hall and Reuter report

T EW Zealand's conserv vative National party yesterday secured the majority - alheit a "waferthin" one - that it needs to form a government and prime minister Jim Bolger said he could govern for a full threeyear term.

But he indicated that his government would slow down its reform programme, saying the electorate had given the party a "pretty clear message about what it thought of

The counting of special votes from absentee electors gave the National party the one extra seat it needed for an overall majority, ending the political stalemate created 11 days ago when a general elec-tion delivered a hung parlia-

The vote count lifted National to 50 seats from 49 on election night in the 99-seat parliament, with the Labour opposition dropping to 45 from 46 and the two minor parties steady on four seats.

Mr Bolger said he was delighted the stalemate was over hut understood the message voters sent his government when they cut its majority from 34 seats.

In an interview, he said he had repeatedly pointed out during the election campaign that the government had completed most of its reform plans during the past three years. Mr Bolger indicated that,

because of his party's small majority, he would try to involve the opposition in some sort of consensus on policy, although he said it would not



and consult them on every

There will be some topics such as employment that we'll want to discuss with them." he

Financial markets echoed Mr Bolger's delight with the result. The New Zealand dollar rose a full cent to US\$0.5500 and the ahare market ended almost S per cent up on the

Last week both local and international investors reacted badly to the hung parliament and the voters' decision to change to a proportional representation electoral system.

The huge inroads intn National's majority and sup-port for the left-leaning Alliance and populist New Zealand First parties were seen as a rebuff to free-market policies that both National and Labour governments have pursued

The slender majority is expected to make for parlia-mentary difficulties for Mr Bolger as opposition parties are expected to demand that National provides a Speaker.

who does not normally vote. This would leave National with 49 voting MPs, the same as the opposition parties. Under recent changes the Speaker can vote with the government on minor matters but cannot support issues that he believes parliament as a whole

would not approve.

The leader of the Alliance, Mr Jim Anderton, said last night his party, which won two seats, would honour its promise to support the government

on motions of confidence. Labour leader Mr Mike Moore congratulated National on its win but said his party would keep up pressure to moderate National party legislation on such things as trade

to say whether the finance minister Ruth Richardson would continue in the post in the new government. Both the Alliance and Labour have criticised her "New Right" views and hinted that they would have difficulty working with her in the new "consens

Ms Richardson says she wants to stay and Mr Belger will have to take into account her popularity in the financial

Mr Bolger yesterday reverse his earlier decision not to attend the meeting of Pacific Rim leaders at this week's Asia Pacific Economic Co-operation conference in Sentile.

He said he would fly to the conference today and return next Tuesday to form his administration. He said he would not call parliament amid immediately before Christmas. One of the biggest problems for the government over the next three years will be poten-

tial rebellions by its own mem-bers, three of whom are known to disagree atrongly with a number of its policies. Yesterday, in a hint of what may he to come, one of National's most outspoken MPs, Michael Laws, threatened to resign if the government allowed an

apple exporting company, Applefields, to break the Apple and Pear Board's monopoly on selling fruit overseas In what appeared to be turnsround, the minister of a that a break in the menopoly

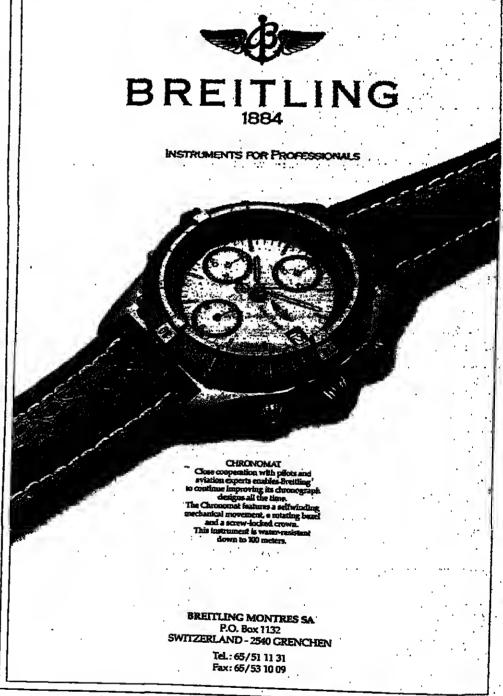
would be against the interests

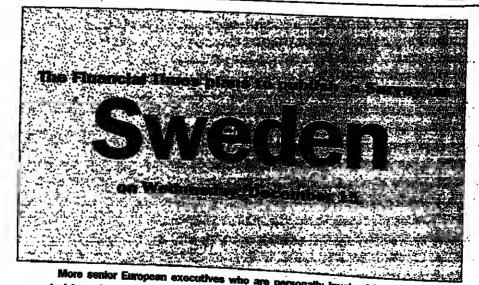
of apple exporters.

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Mr Rémy Carle, chairman









Facing the future together: hlack and white children at a multi-racial school in a Johannesburg suburb

Dawn of the new South Africa

Last-minute climbdown by De Klerk seals deal on constitution

By Patti Waldmeir In Johannesburg IT HAS BEEN one of the most extraordinary revolutions of modern times: a negotiated revolution, which

was last night drawing to a close as South African politicians put the final touches to a constitution to end 350 years of minority government and replace it with majority After a dramatic last minute capitulation, the ruling National Party accepted a provision of the

constitution which effectively strips the white minority of almost all entrenched powers in the proposed govarnment of national President F W de Klerk, who has promised since the day he took office that he would never allow majority iomination to replace minority fule, learly decided sometime on Tuesday night or Wednesday morning that

allies, blocking power). But in a late night meeting, Mr Mandela apparently insisted that the ANC would accept only a 50 per cent majority to break deadlocks – a figure voluntary power sharing was the way to achieve this - not the kind of entrenched co-rule which his supporters have long been Mandela to a "consensus-seeking would be preferable to that available constitution (to replace the document in the new cabinet, in proportion to their share of the national vote in the -spirit". . . . April 27 elections; they may well control pivotal ministries such as this deal, which was struck by prefer a voluntary arrangement to

End of 350

domination

1652 Dutch East India

Company establishes post at

1816-28 Zulu kingdom rises

1836-40 Afrikaner farmers

stage the Great Trek away

1838 Afrikaners defeat Zulus at

1899-1902 Anglo-Boer war ends

1910 Union of South Africa,

under King Shaka

from British rule

Battle of Blood River

with Afrikaner defeat

years of

white

the Cape

decision-making in cabinet, the almost sleepless nights. They minorities; but precedents from the settled well below its bottom line on a powerful say in government. From Zulu wars to multi-racial power-sharing 1912 South African Native

> renamed ANC 1913 Africans limited to land ownarship in 7 per cent of South Africa

1931 South African Communist 1936 Native reserves increased from 7 to 13 per cent of all land 1948 National Party wins

Act passed, classifying people hy race; Group Areas Act

enforcea ·

segregation

National Congress, firat national African political movement formed, later

reaidential

1952 ANC launches non-violent

president (likely to be Mr Nelson Mandela of the ANC) will ultimately

decide. He will try first to seek

spirit of national unity"; but when the chips are down, his will shall prevail, and the National Party will be

.Until late on Tuesday night, Mr de

Klerk had been insisting that this

would not be so; where consensus

in South Africa, Section II

vote would be required to pass certain

important decisions (this might have

allowed the National Party, with

they are almost certain to command -

and Mr de Klerk decided instead to

drop percentage voting altogether, in exchange for a commitment from Mr

National Party negotiators defended

finance. But when it comes to exhausted negotiators after weeks of entrenchment of some powers for

could not be reached in cabinet, a 2/3

powerless to stop him.

us on his decisions "in the

1914 National Party formed

surprise victory, introduces apartheid which codifies and

expands racial segregation 1950 Population Registration

and PAC banned

See Editorial Comment; Survey on investment

1961 South Africa leaves Commonwealth, ANC non-violence

consciousness leader, dies after police beatings

1960 police kill 69 unarmed Africans in Sharpeville; ANC

ahandons policy 1964 Mandela and other ANC

1976 Soweto uprising, 1,000 protestors killed over following 1977 Steve Biko, hlack

1978 PW Botha becomes Prime 1979 African trade unions

1982 Conservative Party

breaks away from National

launch of United

Democratic Front, umhrella anti-apartheid group 1984 tri-cameral parliament set

acknowledge that their role in cabinet

will depend on the goodwill of Mr Mandela, and repeatedly stress their reliance on the "spirit of reconciliation" which has developed.

especially over the past year, between

politicians from opposing sides.

They believe the National Party

does not need entrenched

constitutional provisions to play a

powerful role in restraining the ANC:

the ANC has assured Mr de Klerk

that it does not wish to govern alone

(and does not believe it could do so

effectively); and be has accepted those

assurances, bolstered by his party's substantial power base in the civil service and military, and in the

electorate at large.
It is a gamble, but one which is

probably inevitable: as a minority

government whose power diminishes

by the day, negotiators clearly calculated that a deal done now

next month or next year. Only time

will tell whether they are right to

up with separate white, coloured and Indian houses: prolonged violence in black οf 1985 state of emergency leaders sentenced to life for imposed; President Botha delivers "Rubicon" speech rejecting calls for change; deht moratorium imposed after

> over loans; white South Africans hold talks in Zambia with ANC; press censorship imposed

1989 PW Botha suffers stroke

and resigns; Botha meets Mandela in Cape Town before

leaving office; National Party

wins general election, FW de

1986 repeal of pass laws, which restricted African freedom of movement

Klerk hecomes president; De Klerk allows first mass protest marches: Walter Sisulu and other ANC leaders released

But overall, the National Party has only happen if losers continue to have

from prison 1990 De Klerk unbans ANC, PAC and SACP; Nelson Mandela released after 21 years in prison; first formal talks between ANC and government; nationwide state of emergency lifted; repeal of separate amenities act; ANC/Inkatha fighting spreads to Transvaal; ANC suspends armed struggle 1991 De Klerk announces repeal of apartheid laws; Winnie Mandela found guilty of kidnapping and accessory to

negotlations stall when 'Codesa" breaks down: Boipatong massacre leaves 40 ANC supporters dead; ANC holds mass action campaign. including general strike; 24 killed when troops open fire on ANC demonstrators in Ciskei homeland: Government releases political prisoners.

hilateral talks resume 1993 ANC and Government agree on five-year multi-racial power sharing; multi-party democracy talks resume; ANC leader Chris Hani assassinated; multi-racial elections set for April 27, 1994; Inkatha and right wing withdraw from multi-party talks; Transitional Executive Council approved at multi-party talks. hringing hlacks into central government for the first time; international

economic sanctions lifted.

PLO's cash crisis 'threat to peace process'

By Julian Ozanne in Paris

THE financial crisis in the Palestine Liberation Organisation could jeopardise the Israeli-Palestinian peace process, Mr Ahmed Qurie (Abu Ala), the PLO economics chief, warned

Mr Qurie said the PLO had been unable to meet its operat-

ing expenses for the past five months, adding that the crisis has been absorbing the time of the PLO leadership at the expense of work on implementing the peace process. The strike at the PLO's Paris office during Mr Qurie's visit to the capital illustrates the

organisation's financial paraly-

sis. All inquiries about the visiting Palestinians were dealt with by the Israeli emhassy.
"We are completely unable to face our commitments and ohligations to our embassies, departments and the institutions like universities, trade unions and chambers of commerce which form the backbone of Palestinian social life," Mr Qurie said. "And the crisis comes as we are facing the challenge of creating new insti-tutions for the peace. (Yassir) Arafat is finding its difficult to lead the peace process in a courageous way when he cannot even pay his hodyguards stand-ing in the front of his office."

ment was \$120m, hut that the organisation was now virtually bankrupt. Donors had made promises hut had not yet delivered aid for operating costs. Mr Qurie, 56, an Arafat loyalist who was the key Palestin-ian negotiator in the Oslo talks

Mr Qurie said the minimum

annual operating hudget of the

PLO before the peace agree-

which produced the peace accord, said the PLO was determined to lay the embryonic

regional governments: though the regions (to be called provinces) are to economic framework for an independent Palestinian state. be granted primary responsibility for areas such as primary and secondary education, housing, health, policing, "All the economic instituetc, central government reserves the right to intervene in these areas to impose uniform national standards, to ensure proper regulation, to protect the national economy or national security, and where there are implications for national economic policy; in short, the constitution

from imposing taxes without central government approval, it is hard to correspondent, in New York accept Mr de Klerk's claim that the in the end, democracy in South unanimously early yesterday Africa may well only be viable if the

checks and halances. The party's 1991

constitutional proposals called for

political power to he divided between

three tiers of government - central,

regional and local - with each tier to

have "original and entrenched

authority with which other tiers of

government may not interfere".

In fact, central government retains

wide powers to "interfere" with

authorises central government to

intervene in terms so vague as seriously to undermine regional

autonomy. And with regions barred

stakes attached lo winning or losing

an election are reduced, and that can

end hunt for Aideed By Michael Littlejohns, UN

to call off the hunt for General Mohammed Farah Aideed, the Somali warlord whose followers were blamed for attacks on International peacekeepers. The decision was in response to an abrupt shift in US policy after 17 American soldiers were killed on October 3 in a clash with Gen Aideed's forces. Adml Jonathan Howe, UN special representative in Somalia, had offered a \$25,000 (£16,778) reward for capture of the warlord. Without naming Gen Aideed, the resolution

might he implicated," pending a report that will determine responsibility for repeated attacks on UN troops. Mrs Madeleine Albright, the US delegate, said the goal now must be to foster a political dialogue leading to national reconciliation. Gen Aideed had refused to co-operate in peace making efforts while a wanted man and the council now bopes he will change his mind. Seven Nigerians and 34 Pakistanis serving with the force

have also been killed in attacks

sought suspension of "arrest

actions against those who

tions will be the institutions of a sovereign state but we will be realistic about what is possible today, tomorrow or the day after tomorrow but the decisions of when to create the institutions will be ours and will be made on financial and

economic grounds," he said.
Mr Qurie said the greatest challenge in the economic talks with Israel would be a trade agreement which respected the Palestinian integration in the Arah and Islamic world and particularly the PLO's intention to sign a free trade agreement and open

borders with Jordan. Mr Qurie confirmed reports of a serious internal dehate within the PLO over the shape of the institutions that will bandle the transition to self-government in the occupied territories. The rift reportedly pits Mr Mahmoud Ahbas (Ahu Mazen), the man wbo signed the peace accord in against Mr Arafat who is reluctant to release his absolute tions or admit new profes-

sional people who do not have a political hackground. Palestinians are now looking for clean institutions, more democracy," he said. "We are coming to a new stage with new responsibilities and it is normal that there will he different points of view. But it will he resolved in a democratic way within the PLO."

Mr Qurie is looking forward to returning to his home in Abu Dise, near East Jerusalem. which he last visited in 1968 But like many PLO exiles who have devoted most of their life to the hureaucratic work of the liberation movement he admits little personal feelings. "I am like all Palestinians in exile who hope to go hack to their land and live in peace, stability

Nigeria in new bid to

end strike

By Paul Adams in Lagos THE INTERIM government of talks with the unions from Lagos to Abuja, in a bid to end a general strike over higher fuel prices. The military-appointed government is expected to offer public-sector workers a rise in transport allowances to offset higher liv-

per cent increase in fuel prices, which it says is necessary to wipe out public-sector deficits and restore the state-owned refineries to working order. The Nigeria Lahour Congress' strike call has been where fuel prices have been

The main impact of the

strike bas been on public

transport, domestic airlines,

high for over a year.

Last week it imposed a 600

manufacturing industry, the port at Lagos and the hig banks. Banks and shops were closed in many states yesterday and traffic remained light. There has been no disruption to oli production. "My union will strike when the time is right," said Mr Frank Kokori, head of Nupeng, the oil workers' union."The fuel price is a

sideshow, the real issue is

Nigeria's political instability.'



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overseas banks refuse to roll

rest of Africa suggest that powerful

ruling parties tend to abuse their

power, unless forcefully prevented from so doing.

that "only the National Party can

stand fast against the lust for power of the ANC"; that claim is substantially undermined by last

night's agreement, which could further strain National Party support

which stands at only 11 to 13 per cent

in recent polls. One political commentator assessed the deal in this

way: "If the ANC helleves the

National Party are gatekeepers to

white confidence, they'll stick to the deal. If not, they won't. At the end of the day it will depend on politics, not

Negotiators argued last night that

this much weakened form of

power-sharing is part of a larger

package which provides other

safeguards against the abuse of power: a bill of rights, a second

chamber in the legislature which

provides for regional representation, a

guarantee that the government of

national unity will remain in force for

now being finalised) must be passed

by at least a 60 per cent

the rules."

majority.

Mr de Klerk promised last week

assault: "Inkathagate" scandal over secret government funding to Inkatha; National Peace accord signed

1992 whites vote by a large majority to end apartheid in a referendum; constitutional

"China - A New Beginning" A strategic assessment of the dynamic Chinese pharmaceutical market, up to 1997.



By Emma Tucker, Economics Staff

A SHARP DROP in UK

inflatioo last mooth, together

with disappointing growth in

shop sales, yesterday revived

hopes that Mr Kenneth Clarke,

the chancellor, will cut interest

rates at or around the Budget.

Intense price competition,

particularly among food retail-

ers, pulled the retail prices

index down by 0.1 per cent in

October, cutting the annual rate of inflation to L4 per cent

last month from 1.8 per cent in

free to set mooetary policy independent of the Trea-

sury and have the sole objec-

tive of pursuing price stability.

while coming under much greater parliamentary scru-

tiny, a high-level independent

panel says today.
In a report published by the
Centre for Economic Policy

Research, the 12-man panel of

academics, financial and husi-

ness luminaries, former central

bankers and erstwhile finance

ministry officials from Britain

and ahroad, chooses a middle way hetween the German

Bundesbank model and that of

the New Zealand Reserve Bank

for a more independent UK

It builds on the increased

responsibility given to the

Bank for achieving price sta-

hility since sterling's exit from

the European exchange rate

mechanism in September 1992.

Noting that the new system

central bank.

The index, excluding mort-

five stat

tinues t

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CODS

THE

below 2 per cent for 10 consecutive months, the longest run below this level since 1960. The sluggish picture on prices colocided with and reflected other official figures out yesterday that showed retail sales growth slowing in

gage interest payments, also dropped 0.1 per cent on the

month, returning the year-on-

year rate of underlying infla-

tion to a 25-year low reached in

May of 3.8 per cent. This com-

pares with 3.3 per cent in the

year to September and the gov-

The fall in the headline rate

means inflatioo has now been

ernment's 4 per cent ceiling.

October. Together the figures underlined the patchiness of the recovery and consumers' reluctance to spend. Last mooth, retail sales vol-

Inflation fall boosts hopes of rate cut

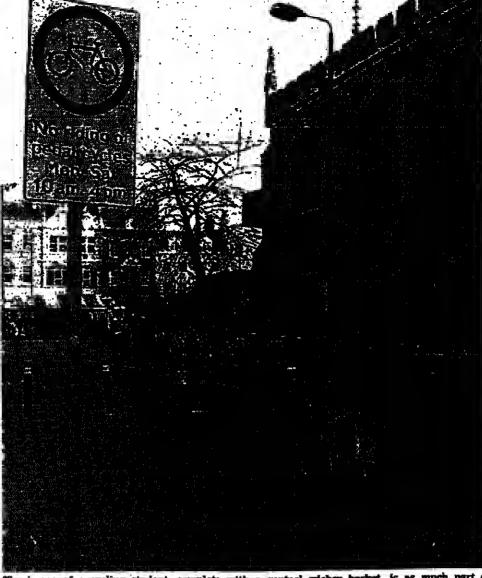
umes rose a seasonally adjusted 0.1 per cent compared with the previous month to stand 3.2 per cent higher than a year ago. This was the lowest year-on-year rate of growth for five months. Share prices rose on height-

ened expectations that hank base rates may be cut from the 6 per cent level set in January. The FT-SE 100 share index closed up 22.5 at 3,120.0. Gilts prices rose about a point in

response to the low inflation figures. But interest rate speculation hit sterling, which closed down a pfennig at DM2.5175 and was almost a cent weaker at \$1.4770. Mr Stephen Dorrell, the financial secretary to the Treasury, said the figures showed that the UK had a "once in a generation" opportunity to hreak out of inflationary cycles that have

dogged it in the past". But the weakness of shop sales is likely to increase pressure on Mr Clarke to minimise Budget tax rises for fear of damaging demand. The latest drop in inflation lying inflation - the RPI excluding mortgage interest payments - will breach the government's 4 per cent target ceiling over the next few months. The outlook, according to the Central Statistical Office, is that inflation will remain subdued as hig retailers compete to slash prices.

The most buoyant area of retail sales was household goods, which were 2.3 per cent higher in the latest three months, compared with the previous three month period. Compared with a year ago, they were 10.1 per cent higher.



The image of a cycling student, complete with a genteel wicker basket, is as much part of Cambridge as its ancient colleges, Jim Kelly writes. With Oxford and York, the city boasts a huge two-wheeled population thanks to narrow streets, a flat landscape, and tight timetables to meet. But now Cambridgeshire County Council has decided to continue a bar it introduced in 1991, preventing cyclists from using two central streets in the interests of safety. The decision comes amid a heated row between "town and gown", with the local paper running a headine "Too Push To Walk!" and one campaigner said it was like depriving Venice of its gondolas. But Cambridge will no longer venices bisuplat hadron. will no longer welcome bicycles between 10am and 4pm, on Sydney Street and Market Street

Blueprint for a more independent Bank

Peter Norman reports on a high-level contribution to the great debate on the British central bank

"has so far had an easy ride", the report's authors say that now is the best time to equip Britain with a stronger mone tary anchor hefore inflation reappears. The best available anchor is a more independent

Bank of England, it says. The panel, which included an expert in constitutional law aod a former Bundesbank director, has attempted to take account of the UK's history of high inflation in recent decades and its powerful parliameotary institutions. It has therefore rejected the German approach to ceotral hank independence, which relies oo the Bundeshank's strong counter inflation reputation and gives it a free hand in implementing policy, and the New Zealand system of a legal framework of

contracts to govern the setting

of targets and cooduct of policy. Instead, the panel's approach emphasises transparency, monitoring and accountahility

Specifically, the panel pro-

poses that: Price stability should be the Bank's sole statutory objective and that the Bank, not the Treasury, should formulate and announce a medium term target for inflation. • The Bank would have full

cootrol of short-term interest rates in pursuit of its target.

The Bank's conduct of mooetary policy should be subject to routine parliamentary review. It suggests that the Bank should also suhmit its inflation target to parliament via the chancellor of the exchequer who would be expected to comment on the Bank's

actions. The Bank would also be expected to explain how far its monetary policy options were constrained by government fiscal policies.

• The Bank should have no powers to lend money to the government. Sterling's exchange rate should be primarily left to the

foreign exchange markets. In a crisis the government must have the power to overrule the Bank and take over economic policy, including monetary policy, for a limited period of time. But such a move would he a very high profile event and would require parliamentary approval. The report explicitly rules out small overrides of targets, which it says would be a recipe for "target drift". The Treasury said yesterday

that the report was an interest-ing contribution to what will he a lengthy dehate on the future of the Bank and that Mr Kenneth Clarke, the chancellor, would not pass judgment hefore the debate was con-Although Mr Clarke has

given the Bank more freedom of action for attacking inflation, he made clear this week that he is not convinced that It should be independent.
Officials at the Bank pointed out that its priority is to

achieve price etability, and independence will only be pos-sible if the British people and parliament want it. The next stage in discussions about the Bank will come with the publication of the TCSC's own report on its future, possi-

hly before Christmas. Independent and Accountable: a new mandate for the Bank of England, From CEPR. 25 - 28 Old Burlington St., London WIX ILB, £6 or \$9.95.

Turnover up at London exchange

By Norma Cohen, Investments Correspondent

SHARPLY higher turnover on the London Stock Exchange in the six mooths ended June 30 led to a 4 per cent rise in income to £98.1m from £94.5m

the year before.
After costs, which include a £10.3m charge related to development costs of the system designed to replace the SEAQ

price display system, the settlement activity was 17 per exchange's operating surplus was £8.6m, up sharply from a £1.5m loss the year before. The 1992 results included a £13.5m charge relating to the development of the now-ahandooed Taurus paperless settlements

first six months of 1992 and

system. New equity Issues raised £8.6hn in the period. more than double the level of the cent higher. Turnover in UK equities rose hy 24 per cent to £268hn and overseas equities trading rose

hy 81 per cent to £296ho. The exchange said that it expects its costs in the second half of the year to closely match its income, thus leading to a small surplus for the year

Also, the exchange noted

disproportionately high in relation to the pre-tax sur-

"This arises because a significant proportion of our expenditure is not allowed against current income for tax purposes," the exchange said. It will only enjoy a reduced tax rate if sufficient taxable profits are earned in inture

New powers sought to cut red-tape

By Roland Rudd

THE UK Department of Trade and Industry is to receive sweeping new powers enabling it to repeal hundreds of regulatory measures without having to refer to parliament.

The new powers will be contained in a deregulation bill, to he announced in today's Queen's Speech - the traditional government announcement of proposed future legis-

While the details of the draft legislation will remain under wraps until later next month, Mr Neil Hamilton, minister of corporate affairs, said the government planned to get rid of "hundreds of regulations" without seeking primary legis-

in a recent interview with the Financial Times, Mr Hamil-

ton, who is spearheading the government's deregolation ini-tiative, said: We are planning to clear out the accumulated. to clear out the accum dross of a number of bills withdross of a number of hills with manalmousning regulations out seeking primary legislation which he said had become an which would clog up parlia-

The minister made it clear: that the DTI would have new powers to repeal by order many statutory instruments. Landon for having given ris which allow ministers to see to nearly non-statutory rules.

citic order of parliament. Mr Hamilton was scathing about many of the country's intolerable borden on business. He also singled out the Phoencial Services Act, which emderphis regulation of finan-London for having given rise

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of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is In the Ukraine, unable and

and western nuclear scientists. Mr Remy Carle, chairman of the WANO governing hoard neral manager of

economy, supplies of other fuels and other factors over which the nuclear industry has



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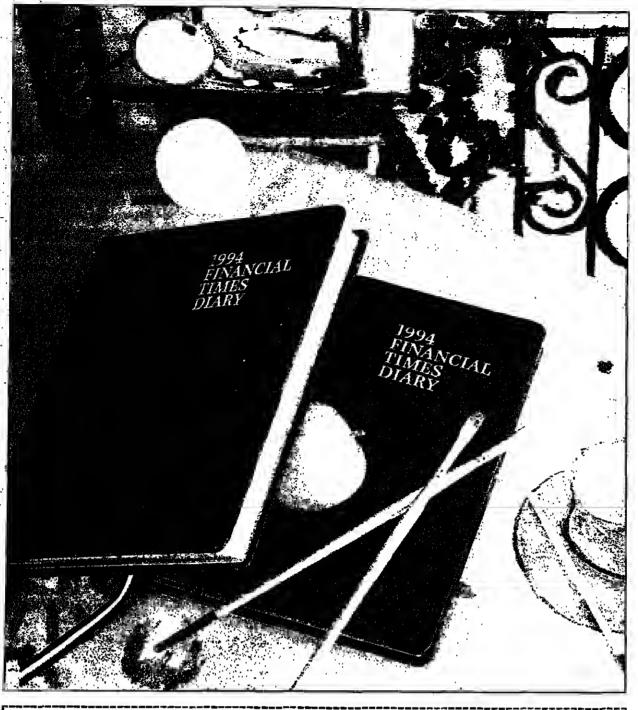


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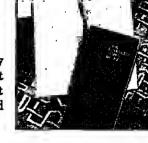
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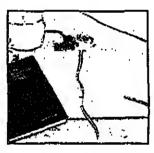


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rspal

THE IMPRESSION that progress towards peace in Northern Ireland is accelerating was reinforced by Mr Dick Spring, the Irish foreign minister, who yesterday warned that the British role was crucial.

Speaking at Johns Hopkins University in the US. Mr Spring said both governments had to accept that previous approaches to solving the prob-

However, Mr Spring said there were "grounds for hope and encourage-ment" in Mr Major's speech on Ulster on Mooday. He also praised the peace efforts of Mr John Hume, leader of the SDLP, who has tabled a joint peace

initiative with Mr Adams. Mr Spring said the Hume-Adams proposal "compels an urgent response from both governments. We must not become sidetracked into debate regarding partial and comprehensive approaches to the problem".

inclines to one side or the other, or is even handed. The balance expressed in the British position is therefore a crucial factor.

Meanwhile Mr Michael Mates, the former Northern Ireland minister, rejected claims that he had talked to Sinn Fein, the political wing of the IRA, on the government's behalf. Mr Mates was identified by a lead-

ing unionist politician as the previously unnamed envoy alleged to have talked to Sinn Féin earlier this year. Ireland Secretary, has bluntly denied that any contacts have taken place with Sinn Féin, other than talks on local issues with the party's elected representatives.

However, both unionist and republican political leaders continue to claim privately that contacts took place until just before the Ulster Unionist party agreed to support the government on a crucial Westminster vote on the Maastricht treaty.

Republican sources say that Sinn

Féin was represented by Mr Martin McGuinness, the Sinn Fein vice-president, who is said to have close links with the IRA. Mr Mates, who resigned as Northern Ireland security minister earlier this year because of his involvement with Mr Asil Nadir, the fugitive Cypriot businessman, said the allegations were "black propaganda" put out by Sinn Féin. How-ever, Mr Mates said it was possible that contacts had taken place between "freelances" who may have thought they were acting for the government.

laterally without any co-

to Vauxhall through the joint

negotiating committee (JNC)

then we on the management side must seriously question the role and need for a JNC",

says Mr Warman in his letter.

The TGWU has told the com-pany that the action is due to "unavoidable delays in collect-

Britain in brief



Warders face prison strike ban

The government last night dramatically raised the stakes in a confrontation with the traditionally militant Prison Officers' Association, and will today seek a High Court injunction preventing it from taking industrial action. Mr taking industrial action. Mi Michael Howard, home secre-tary, will argue that, since prison officers hold the office of constable, industrial action involving breach of contract is outside employment law. The POA feels its future threat-ened by the introduction of ened by the introduction of privately managed prisons.

Insolvency may go private

Substantial parts of the work carried out by the govern-ment's Insolvency Service could be handed over to the consultant's report submitted to the Department of Trade and Industry. The report, which was commissioned by the DTI in July from accountants Stoy Hayward, suggests that up to \$42m of the £50m in annual work conducted by the Official Receivers' office could be privatised.

Bid to run bus. rail services

Stagecoach Holdings, the only company to have run its own service on British Rail, is to seek a ruling from the Office of Fair Trading on whether it may run bus and rail services in the same area. If the OFT does not give its approval. some of the bus companies. considering bidding for a fran-chise to run trains on the pri-vatised British Rail network may withdraw, Mr Belan Cox," managing director of Stagecoach's rail division, warned. "We don't want to put a let of effort into bidding for a fran-chise and then find it has been

referred (to the Monopolies and Mergers Commission),"
Mr Cox said. "We will take a
test case to the OFT. If it doesn't come out in favour several people will have to think again."

Mount Banking court action

The owners of Mount Banking, the small Asian-controlled bank in administration, have appealed against a ruling that vindicated the Bank of England's regulatory action against them. Mr Navinchandra Bhagwanji Shah and Mr Suresh Bhagwanji Shah have lodged a notice of appeal in the High Court to object to the decision of the Banking Appeal Tribunal last month to uphold the Bank of England's action.

Trade case over German guns

A gunsmith, Mr John Slough, has been given permission by a court to sue Mr Michael Heseltine, the President of the Board of Trade over restraint of trade. Mr Slough is seeking \$2300,000 for loss of sales, alleging that the Department of Trade and Industry blocked exports of sporting guns to Germany. The case arises because of confusion over new EC documentation,

Printing pay round returns

National pay bargaining is to resume in the printing indus-try in 1994 after a year's susension, it was announced by the printing employers federa-tion and the GPMU the print union. The decision represents a clear climbdown by the employers federation -

Right number

England took 32 years to reply to a men who wrote asking what antique to put on his house. His ridideen left home during the historic flumwide. A Pareline council spokesman said: "It is something we have only just got round to. These days we try to respond quicker that."

PUBLIC NOTICES

ELECTRICITY NOTICE SEEBOARD plc

For James of the Spinisher, SEEROAFD ptc

2. Address of the applicant, for in the case of a body corporate the regime principal office; Grand Avenue, Hove, Eury Science, BN3 2LS.

3. Where the applicant is a Company, the full mines of the current Directors and the Company's registered member: Sir James Keith Sturrt. Thomas Jumes Ellis, Stephen Gutterfdge, Leonard Jones OBE, John Barrington Quin, John Weight, Roy Arther Cox CBE, Rolph Herry Charles Aldred, Paver Henry Deen CBE, Sir Jan George McLeod, John Arther Walmsley.

Registered Nex 2364067

4. Where a holding of 20 per cast, or more of the shares of an applicant is held by a bidy cooperate or passwership of an unknon-persond especiation carrying on a trade or business with or without a view to profit, the manu(s) and address(es) of site holder(s) of such shares shall be provided:

5. Destroid date from which the Scence is to take effect 1 April 1994

6. A sufficient description adequately specifying the nature and abundon of the premises intended to be supplied, separately identifying premises within the power bands specified in and to the exact provided by paragraph 7 below:

All premises in England, Wales and Scodend other than those which, during the franchise period, have a maximum degrand at or less than the franchise limit in the authorised areas of the following Public Electricity Supply companies to the following Public Electricity Supply companies to the following Public Electricity Supply companies.

In the authorised areas of the following Public Electricity Supply companies cogether with such premises at may, from time to time, be specified by the Director (with the approval of the Secretary of Saxe) for the purpose of paragraph 5 of Condition 2 of our second tier supply ilconos. Electricity pic, East Midiands Electricity pic, London Electricity pic, Manweb pic, Midiands Electricity pic, Northern Becaric pic, Northern Becaric pic, Southern Electric pic, Southern Electricity Group pic, Southern Electricity Pic, Southern Electricity Group pic, Southern Electricity Pic, Southern Electricity Group pic, Southern Electricity Pic, Sout

ast to be supplied and the apprepti (b) If the date in paragraph 5 above is on or after 1st April 1994 their only Power. Bend A stall be completed and if the said date is on or after 1st April 1996 their the paragraph shall cause to have effect.

(6) exceeding 0.1 MW but not excee ding I.O MW

8. A description of the system of electric lines and electrical plant by means of which the applicant intends to supply electricity, indicating which plant and lines are to be constructed and which are existing plant and lines, and further identifying any parts of that system which will not be owned by or otherwise in the nonamental or constructed of the surface.

the possession or control of the applicant:
Lines and plants owned by: Bestern Bestricky pic, East Midtands Bestricky pic, index Bestricky pic, Northern Bestrick, ondoes Bestricky pic, Northern Bestrick pic, NORWEB pic, SEEBOARD pic, Southern Bestricky pic, South Wales Bestricky pic, South Wales Bestricky pic, Yorkshira Bestricky pic, South Wales South Wales Pic, The National Grid Company pic,

maint of expect (if any) to which the applicant cor for powers under Schedule 3 (compulsory acquisition of land etc) and un Schedule 4 (other powers etc) to the Act to be given through the Scanes which he is applying. where he is impring.

As laid down in the Public Electricity Supply Licence granted to SEEBCARD site
by the Secretary of State on 26th Pfarch 1990.

10. Details of any Roences held, applied for or being applied for by the applied in respect of the generation, transmission or supply of electricity. Public Bectricity Supply Licence, Private Electricity Supply Licence.

as of maps relevant to this application have been fodged in accordance with lation 6 of the Electricity (Applications for Licenses and Extensions of seas) Regulations 1990 at Regional Offices of the Office of Electricity Regulation. Copies are available for inspection by the put

S Guttaridge, Managing Director, Supply, SEEBOARD pk., Grand Avenue, Hove, East Sussex, BNI 21.S.

ART GALLERIES

TRAFALGAR GALLERIES ECONOMICS OF Old Master Paintings. 23 No. Mon-Fri 10-5, 35 Bury Street.

He added: "The question for both International bidders in race for Heathrow link

By Andrew Taylor, **Construction Correspondent**

BRITISH, German, French and Japanese companies are among a string of international bidders for the main tunnaling contracts for the £300m Paddington to Heathrow rail link. The privately financed scheme is to be built by a joint venture between BAA, which runs Heathrow airport, and British Rail. Japan's Export Import Bank (Exim) recently agreed a loan facility of up to

£135m to help finance the project.
The tunneiling works will form the largest element in the Kumagal Gumi (Japan)

£300m cost of the project. Taylor Woodrow the large UK con- Kier (UK), Murphy (UK) tractor has been appointed overall construction manager for the 25km line .

The tender list for the tunneling works comprises Balfour Beatty from the UK and five especially formed joint ventures involving a mix of UK and overseas companies.

The joint ventures are: Amec (from the UK) and Hochtief (Germany); Sir Robert McAlpine (UK),
 Taylor Woodrow (UK), Wayss & Freytag (Germany) and

A brand

and Kunz (German);

• Nuttall (UK), Trafalgar
House (UK) and Zublin (Ger-

Tunneling for railway sta-tions is highly specialised and there are only a small number of British and international companies with the expertise to carry out this work. Nonetheless there has been

criticism of the large number of foreign companies involved in consortia which have recently been awarded contracts on the Jubilee underground line extension in Lon-

Vauxhall threatens to impose single-union deal

By Robert Taylor,

VAUXHALL motor company, part of the US carmaker GM, is threatening to abandon its present joint negotiating agreement with the trade unions and introduce a single union deal for its 9,000 man-oal workers.

The company's Amarican management is furious at the decision taken by the Transport and General Workers union to impose an overtime han from today among its 2,000 members at the company's Ellesmere Port plant on

pleted among Vanxhall's other manual workers on whather they favour industrial action in protest at the company's two year final pay offer of 2.5 per cent this autumn and 3.0 per cent plus 1 per cent lump

sum in September 1994.

In a letter to the TGWU
Vauxhall's personnel director
Mr Bruce Warman questioned whether the union wanted to abandon the current joint union machinery with its move to launch an overtime ban at Ellesmere Port. "If it is your intention that

from now on separate union groups at each of our locations

ing the information required by the ballot scrutineers" which prevented a co-ordina-

tion of the voting across the Vauxball plants. Other unions believe the majority of the company's manual workers will accept the pay offer.

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ARGENTINA

itseii



which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is

and western nuclear scientists. Mr Remy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, supplies of other fuels and other factors over which the nuclear industry has

A member of the GEC Group of Cal

In the Ukraine, unable and

en years ago Roger Enrico, then president and chief executive of Pepsi-Cola, was talking excitedly to the company's chairman, Don Kendall. "There's this young fellow Michael Jackson. He's a singer and he's very, very hot. And we think we can get him - and his brothers to be in our advertising.

mi b

ation p

CES

"I've had them checked out. The reports came back sterling. These people haven't been near alcohol, much less drugs. They're very religious. Very family-oriented. They're not political. I see very little chance of embarrassment for us here."

If Enrico were this week to reread his words, contained in his

1986 account of the war with rival Coca-Cola, he would surely blush. Over the past few days Pepsi has pulled its multi-million dollar sponsorship of the star's "Dangerous" concerts as Jackson has abandoned his world tour because of addiction to pain-killars and stress caused by allegations, strongly denied, that he sexually molested a 14-year-old boy.

It is not the first time a celebrity has turned into a marketing night-mare: Pepsi has already abandoned commercials in the US featuring pop star Madonna after a furore over a video; the actor Burt Reynolds' divorce petition became an embarrassment to advertisers; and sportsgear endorsements halted ahruptly for "Magic" Johnson, the haskethall player, when he announced ha was HIV positive.

But far from becoming fed up with the extraordinate for the street of the

with the extraordinary fees that stars demand for their endorsement of products - and the danger that if a celebrity goes off the rails the hrand may go with them - the trend, if anything, is towards the increased use of hig names. Kenneth Miles, director general of

the Incorporated Society of British Advertisers, sees the use of celebrities as an extra weapon on a battlefield where differences hetween hrands are not always apparent. The value of using stars has been proven, he claims, particularly when it comes to getting through to young people. Instead of personali-ties being employed solely in advertisements, they are increasingly being integrated into all aspects of a marketing campaign.

Chris Powell, president of the Institute of Practitioners in Advertising and chief executive of agency BMP DDB Needham, says using a celebrity can have the benefit of giving instant fame to a product but the ever-present danger is that it

can blow up on you". As Mike Walsh, Ogilvy and Mather's London chairman puts it, one of advertisers' greatest fears is that "the celebrity becomes the hero, rather than the product they're marketing". An example repeatedly mentioned in the industry is the series of advertisements for CinCelebrities can bring instant fame to a brand, but they can also fall from

grace. Diane Summers reports

Dangerous liaisons



Michael Jackson, the dream celebrity has become a marketing nightmare

zano, featuring actors Joan Collins and Leonard Rossiter. Some people believe the characters so dwarfed the product that consumers may have had trouble recalling the

If the identification of a star with a product is very strong it can also make brand development difficult, says Tom Brannan, a vice-chairman of the Chartered Institute of Marketing and a director of agency Primary Contact. The weening process may need careful thought for exam-ple, when Sony needed to move away from using John Cleese in its ads, it used the "ingenious" interim device of a robot-style figure which resembled the actor, says Brannan.

Personalities, meanwhile, cannot be guaranteed to be the best ambassadors for the products they are paid to promote - contracts there-fore need to specify the standards expected, says Powell. The magazine Marketing cites examples of the "kind of situations that make ad agencies weep": model Jerry Hall saying she used Bovril to clean her boots; Paul Gascoigne, the British footballer and then Brut man, denying he wore aftershave, and English

cricketer Ian Botham calling Dansk low-alcohol lager "gnat's piss".

Clean, hut not so squeaky clean to be boring, seems to be the maxim for selecting a celebrity. That most desired attribute of all when marketing to the young - street credi-hility - was gained by the former sick-hed drink Lucozade when It started using the Olympic athlete Daley Thompson to promote the hrand. Thompson's irreverent streak definitely helped, says Walsh, whose agency created the

However, sporting personalities hring their own problems. Saya Miles: "They do have a high wearout rate," although, carefully chosen, their promotional value can outlast their ability to win medals. Michael Jordan, the haskethall player, earned about \$32m (£23m) last year, according to Forbes magazine, from promoting a range of products including Nike shoes. He will continue his activities in retirement, even if the ads are modified to take account of his less-active

One tip from Dominic Mills, editor of the UK advertising weekly Campaign, is to spot a celebrity early: "If you get them hefore they're really famous you can ride on their back." It is also possible presumably, to benefit from less-inllated fees. Actor Paul Hogan's link-up with Foster'a is a good example, says Mills. Hogan only moved from cult to mass-market status with Crocodile Dundee, which came after the first Foster's ads.

In selecting a celebrity, says Brannan, it is also very important for companies to analyse which values they are trying to huild into their brand. For example, Sir Robert Mark, the former UK Metropolitan Police commissioner, is a good choice to promote the trustworthi ness of Goodyear tyres. Beware, says Powell, loose connections between celebrities and brands -

"borrowed interest", as he calls it. That close fit is exactly what Pepsl had for a number of years with Jackson. Jay Coleman, an arranger of deals hetween rock stars and corporations, brought the idea of Jackson to Pepsi. As reported in Enrico'a book, Coleman says as part of his sales pitch: "Cars, lignor - for a dreamy, clean-living kid like Michael, these make no sense. He needs a product that's soft, cuddly, harmless and fun. And that's soda.

And that, even if every letter of advice from the experts is followed, is celebrities – potentially high rewards with the inevitable high

The solution to the puzzle which eppeared on this page on November 4 is that each of the four words contained the name of an animal

A little luxury goes a longer way

A demand for durable products has replaced the throwaway ethos of the 1980s, writes Alice Rawsthorn

be Sultan of Brunei recently spent an agreeable afternoon shopping at Tiffany and treated himself to a \$70,000 (£50,000) trinket.

The sultan must have been a welcome sight at the Manhattan store which, in common with the rest of the luxury trade, has had a tongh time recently. The industry is still under pressure as illustrated by the recent takeovers of Gncci, the Italian leather company, and Yves Saint-Laurent, the Freoch fashioo house. But the situation is mproving as the global economy edges towards recovery. The surviving companies must adapt their marketiog strategies to meet the new demands of the luxury market after the recession.

During the 1980s, the dominant theme in the luxury husiness was expansion, as oew customers eotered the traditional markets of Europe and North America and Japan emerged as a dynamic oew market for expensive western goods. Whereas the industry's old customers had preferred to pay more for prodocts which were distinctive - either because they were made in limited editions or designed to particular specifications - all that the oouveau consumers wanted were instantly recognisable status

The most successful luxury products were the ohvious ooes: Chanel suits with tell-tale dooble Cs on the gilded buttons and Louis Vuitton luggage emhlazoned with LV initials.

The recession has weeded out some of the nonvean consumers and reshaped consumer taste after the ostentation of the 1980s. People show off less than they used to," says Françoise Jollant-Kneebone, design director of Louis Vuitton, the French Inggage house. "They're still prepared to spend a lot of mooey on an expensive product, but only if they're certain that It is of really high quality and thet It will last."

The most successful companies of the early 1990s are those that have recognised these changes, Hermès of France has prospered

hy sticking to its specialist niche at the top of the market with its 135 scarves and 1,970 hand-made hags: as has Asprey, the British concern, that has turned its Bood Street store into the gift shop for the world's super-rich.

"This husiness is all about scale," says Peter Wallis, director of SRU, the London-based management consultancy. "It's perfectly possible for people to operate successfully in luxury goods today, hut they have to accept that there are limitations to the size of the market." Hermes and Asprey have acknowledged the constraints.

"It's perfectly possible for people to operate successfully in luxury goods today, but they have to accept there are limitations to the size of the market"

Hermes plans to continue to expand the ioternational oetwork of shops that fuelled its growth io the 1980s: hut Jean-Lonis Dumas, chairman, has said the pace of openings will he slower Naim Attallah, group chief

executive of Asprey, is adamant that he will not expand the original Asprey company. "It's a very special hosiness," he says. "If we opened Aspreys all over the world, we'd risk ruioing lt," to adapt their product ranges to meet the new demands of the 1990s. The backlash against the "throwaway" ethos of the 1980s means people are huying fewer expensive items, but are prepared

to pay more for them if they are convioced they will last. Jollant-Kneebone says fewer of Louis Vnitton's customers come back to hny a new bag every six months", hut there has been a sharp increase in sales of customised luggage, which is often more expensive than

THE NEW 900.

VERY SPACIOUS. VERY SMART.

VERY SAAB.

In design terms this has triggered a shift towards classic styles which will not date. The focus of fashioo has swung from the glitz of Chanel to the subtler looks of designers such as Jil Sander in Hamhurg and Prada in Milan, which have both

expanded despite the recession. The change in taste is already reflected in luxury advertising. The glossy advertisements in Vogue and Vanlty Fair oow tend to dwell oo exclusivity, craftsmanship and the long history of their companies, rather than the materialistic imagery of the 1980s.

Service is an iocreasingly important component of luxury marketiog as consumers demand more reassurance about the quality and durability of the products they are huylog. "Our customers are more discerning,' says Attallah. "We must make sure onr staff are properly nformed about everything in our

Repairs and recovation are also xpanding. Customers of Cutler & Gross, the Londoo optician, can calm their ecological consciences by paying £25 to have their sunglasses recooditioned, rather than speoding £70 on a

oew pair. The financial strains on the luxury husiness are now easing as the US and UK come ont of recession and the growth of the emerging Asian economies -Sooth Korea, Talwan and, most receotly, China - compensates for the weakness of Japan. Bot oo one expects the industry to return to the heady growth of the 1980s and the themes of exclusivity, high quality and sophisticated service are likely to dominate luxury marketing into the 1990s.

"A lot of people in the 1980s thought that this husiness was all aboot marketing in the conventional fast-moving -consumer-goods sense," says Wallis of SRU. "It might have been at the time hnt lt certainly isn't now, it's about developing a brand with a clearly-defined market position."

PEOPLE

End of an era for | Willis Corroon insolvency name

between the famous insolvency firm Cork Gully and Coopers & Lyhrand, with which it merged

Cork, below, who is the son of insolvency doyen Sir Kenneth Cork and grandson of W H Cork, founder of Cork Gully, is leaving his position as a senior partner with Coopers to

join Moore Stephens.



In a statement recently circulated to Coopers partners, his departure is explained as the result of "differences of opinion" with the firm over the future of Cork Gully. Coopers has been gradually

Roger Cork is severing the last playing down the status of remaining family links Cork Gully. In the last few months it has been dropping the firm's name from many of

its activities. Cork Gully is now used primarily in liquidations. In other insolvency work, Coopers believes the name has a destructive connotation, when much of its work is connected to companies which can be sal-

Cork, who has worked at Cork Gully for 24 years, will join Moore Stephens in January to lead its small corporate recovery practice. He trained with the firm in 1965-69 His grandfather and the founder of Moore Stephens were friends and simultaneously founded their respective firms.

"Although Moore Stephens is an international firm of some standing, it has a very small insolvency division," he said. "I am very sad to be going but I was at loggerheads with the

Four generations of the Cork family have been involved in insolvency work. One of Roger Cork's cousins is a partnar with Booth White, whose son has in turn just qualified as an insolvency practitioner.

Moore Stephens is the UK'a 14th largest firm with total fee income of £42m. Coopers is the largest firm in the country, with fee income last year of £553m and insolvency income

bags Schreyer

Willis Corroon group, one of the world's foremost insurance brokers, has appointed William Schrever to its board as a nonexecutive director, with immediate effect, and simultaneously see the retirement of another non-executive, Arthur Vorys, who has been on the

board since 1990.

Schreyer, right, 65, retired earlier this year as chairman and chief executive of Merrill Lynch, where he had heen aince 1948. His first post with Merrill was as a management trainee, but over the decades he held many posts with the company, reaching the peaks of first president and chief executive in 1984 and then chairman in 1985.

Besides his new con-executive role with Willis Corroon, Schrever is a director of Schering-Plough and is vice chair-man of the New York Stock Exchange. Moreover, he acts as a special financial adviser to the Vatican in Rome, a Papal appointment

He takes an active interest in international relations, being affiliated to the Centre for Strategic and International Studies and the Council oo Foreign Relations, as well as academic lifa, through his posi-tion on the board of trustees of Pennsylvania State University.

Other non-executive appoint-■ James Browning, a general

land, at BANK OF WALES: Archibald Gibson has retired. ■ David Baarda, owner of John Baarda which grows tomatoes and encumbers, at SALADS ETCETERA HOLD-

Adam Lee, chairman of Unison and a former head of RBS's private banks, at MINMET. John Kemp-Welch, joint senior partner of Cazenove &



Co. at MARTIN CURRIE and as chairman of LOWLAND INVESTMENT COMPANY on the resignation of Raymond Cazalet who has also resigned from LAW DEBENTURE COR-

Saab engineers and designers strrving together to produce a car in which every point of form follows a purpose of function. Seated at the wheel of the new 900, you immediately sense that this is no mass-

The new 900 is a very special car, the

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Work for economist

Despite his periods at Essex University and the London School of Economics in the late 1960's, James Robertson's career has taken a most unrevolutionary path as a civil service economist.

This is just as well because on Monday he will take over as the new chief economist at the Employment Department. Robertson replaces Pam Meadows, who has left to become director of the Policy Studies Institute.

Robertson, 44, joined the civil service as an Employment Department economist in 1975. He has since worked in the Department of Energy; headed the Regional Economics Branch in the DTI, and after a bricf spell in the Department of

Transport he rejoined the DTI as head of Industrial and Regional Economics and Statis-

His promotion to under sec-retary, with a staff of 100, will not come as a surprise to people who have worked with him. "He has always seemed a young man in a hurry", says a colleague.

And there may be some political logic to his move, in the light of continuing discussion of a merger between the DTI and the Employment Depart-

"I welcome the opportunity to draw closer links between the two departments. You cannot look at labour markets in isolation from product markets," says Robertson.

Bett heads quango

earlier in the year that he would fulfil his role as deputy chairman of BT in a non-executive capacity, he said that he wished to spend more time on community and social inter-

His new appointment as chairman of the government's Social Security Advisory Committee from January 1 will fill around one day a week in his

The committee advises the secretary of state on social security matters other than industrial injuries, war pensious and occupational pen-Most social security regula-

tions must be submitted to the

committee before they are

Celinet, was previously managing director of BT and personnel director of the BBC. In January, Bett, 58, was pipped at the post for the chairmanship of Acas, the gov-

Bett, who is also chairman of

ernment conciliation service. He will be well-placed to pick up signals from social security claimants when things go wrong with benefits: since 1985 he has haeo Chairman of Bromley Citizen's Advice Bureaux.

He recently became chairof Personnel Management.

man of Save the Children Fund and president of the Institute Bett replaces Sir Peter Barclay who is retiring after nine

Research, a company based at Sal-

ford University. Rolls-Royce, which joined the pro-

gramme in July, wants to convert computer aided design models of its Trent high-thrust zero-engine into

real-time VR images. "The aim is to

put engineers next to a virtual rather than real model of the engine, explains Robert Stone, technical manager of Advanced

Rolls-Royce says it has been inter-

ested in VR for a year and believes

there will be a "clear financial payoff" if the system proves to be a practical tool. VSEL has been using

advanced three-dimensional Cad

modelling with full-sized and one-

fifth scale models of submarines for

eight years. Now, it wants to elimi-

nate the real models and allow engi-neers to "enter" virtual submarines

for design verification.

Despite an impressive membership list which also includes ICI and

British Nuclear Fuels, Stone says he is concerned at the "apathy" shown

by much of industry. The UK is leading the way in VR research, but

people still see it as a computer

game; there's too much hype from the leisure industry," he says.

He admits that introducing VR to

A new convert to virtual reality is

the supermarket sector. Britain's Co-operative Wholesale Society

recently joined the programme run by Advanced Robotics, Its corporate

technology department is keen to

have a virtual supermarket so it

Robotics.

Virtual reality is taking off in the games field, but its impact on industry has so far been limited. That is now set to change

7 0 most people, virtual reality means video games and entertainment arcades. The idea of using the technique in which three-dimensional surroundings are created by computers for viewing on headsets or desk-top terminals - has hardly penetrated beyond the leisure industry.

But manufacturers are turning increasingly to this artificial, 3-D world for help with the design and development of new products. The virtual reality research programmes run by universities and other research centres have attracted a number of companies, including Caterpillar, the US manufacturer of earthmoving equipment, and two UK groups, Rolls-Royce and VSEL (formerly Vickers Shipbuilding and

Engineering).
The potential of VR for helping business and cutting costs was dem-onstrated in the Netherlands earlier this year when the Calibre Institute at the University of Eindhoven developed a system for construction companies. It enabled prospective bouse buyers to "walk through" new homes at a greenfield site before they had even been built. An increase in sales was reported while VR was in use there.

Caterpillar has based its research work at the National Centre for Supercomputing Applications at the University of Illinois. Much of the work is experimental, but the company is using stereo glasses and full-immersion headsets to develop operator cabs for backhoe loaders

and wheeled shovels.
"We use the system as a design tool to check operator visibility and evaluate performance of design." explains Richard Ingram, Caterpillar's manager of university relations. He is guarded about the financial savings that Caterpillar

Artificial look into the real world



Lost in an artificial world: immersion in virtual reality stimulates the brain with new images but there is concern that it may also distort percention in the real world. impact with the way spreadsheets

and personal computers revolution-ised the accountancy profession. "It can take from six months to a year to design and build a prototype vehicle. With virtual reality, we can put a new design into the lab in a week," be says. Caterpillar invites digger operators to the centre's laboratory where they sit in a conventional cab seat wearing a headset. Immersed in a virtual world, they can glance outside the virtual cab and watch the machine's bucket rise and fall as they control it with kept simple, dictated by the speed at which computers can display the movements in real time. If the operdesign can be called up.
in the UK, a close-knit commu-

nity of universities and small earch companies is now starting to attract support from industry. "Virtual reality is not yet a finished production tool. And even though basic systems cost around £40,000, companies will initially prefer to work with centres of excellence," says Seamus Moriey, sales manager

based supplier of VR systems for industrial applications.

Division has sold more than 50

fully immersive systems worldwide and a few weeks ago shipped what it describes as the world's largest commercial VR system to Matsushita Electric in Japan. Valued at some \$500,000 (£331,000), the system will enable three people to share the same virtual world.

Coventry School of Art and Design, part of Coventry University, purchased a VR system in March. It

Panels, the truck cab specialist. "We're using virtual reality for design evaluation and interaction," explains David Pryce-Evans, project researcher. The aim is to enable vehicle designers to see and interact with a full-sized car without going to the expense of building one.
The next step is to expand the breadth of interaction, says Pryce-Evans, and move into consumer products such as kettles and cameras. Rolls-Royce and VSEL are

can study customer flows and space planning. Presumably, though, it will stop short of virtual customers among a number of companies which have joined a research pro-

virtual profits. ... **David Traherne**

Russians show their mathematical might

Tirtual reality can be bad for you. It can disorientate the brain and make it hard to readjust to the real world. This is the view of Bill O'Riordan. a professor at Imperial College, London, and head of advanced research at ICL, the UK computer group owned by Fujitsu of Japan. He believes the creators of virtual reality have made a fundamental error by failing to base their world

on the laws of physics. Yet he is confident a solution can be found - in Russia, where software experts bring a mathematical scrutiny to bear on computing problems that contrasts with the west's more pragmatic

approach. Central to O'Riordan's concern about VR's dangers is the belief that inaccurate representations of the real thing can retune people's minds to a false set of rules. Those who spend too long immersed in a computer environment especially with a headset - can emerge confused. They may not realise it, but their brain may have been reprogrammed. What happens when they are behind a car wheel? How do they know their reaction times have not been subtly altered?

O'Riordan's conclusion is that the laws of physics and mathematics are being simplified, even ignored. He has several

criticisms: if VR objects move at all, they follow pre-determined paths; their interaction with other objects is often not taken into account; scaling is inaccurate; and the use of shading often bears little relationship to the light source.

"The west is making a big mistake in failing to base much of its technology on sound mathematical principles. VR is perhaps the most serious example.'
To help put this right, he has organised talks between ICL and top scientists from the former Soviet bloc.

Because it was isolated by the iron curtain, Soviet computing followed a different path of

evolution - one firmly rooted in mathematics - from that of the west. The result was highly developed skills in programming and algorithms, the building blocks

of computer language. Western computer companies, by contrast, were able to throw money and sophisticated hardware at problems, and became "seduced by graphics" as they strove to make more user-friendly products. The computer games boom is

partly to blame," says O'Riordan. "We have been bombarded by 'virtual worlds' created on the PC, although the complexity of recreating reality is such that no PC can yet handle it."

He finds proof of Russian expertise in the country's military and space technology. He is not alone in his views. David Hughes, a professor at the University of Plymouth who chairs the British Computer Society special interest group on computer-aided design. has also worked with institutes

in Russia and Ukraine. "Their work is mathematically -based, and despite very low levels of technology, their programming skills are formidable. They have been able to get far more out of low-power systems than we would have believed possible."

The Russian mentality may be a result of 50 years of political

repression, says Doron Swade; senior computer curator at the Science Museum in London, because anything which had a practical application was centrally controlled. "The only way they could escape the controls was to embrace the abstract."

The Science Museum put ICL in contact with the Institute of Informatics Systems in Siberia. which led to the first talks last month. O'Riordan was enthusiastic. The Russians know how to make. a machine sing - their programming doesn't waste a bit or a byte," he says.

Jonathan Constant

Advice on some burning issues

hen Mike Lyons speaks about the buildings he sets on fire. was could be sets on fire, you could be excused for thinking that he is a pyromaniac. Fortunately, the buildings and the fire's victims only exist on a computer's virtual real-

Lyons is general manager of Colt Virtual Reality, set up by the UK ventilation and environmental conirol group to provide advice for architects and builders. Colt uses VR to study the movement of people in and around buildings, ships and tunnels.

Lyons says there is a tendency to make simple assumptions about people's behaviour.

"Suppose you have a store with 100 people in it, and exits at the front and back. If there's a fire, it manufacturing industries will not be easy. The technology is still rela-tively expensive and the clarity of is traditionally assumed that 50 will go out through the front and 50 through the back." A better understanding can be

obtained by using a VR database to create individuals based on the psy-chology and behaviour of real human beings. These are then in the building when the blaze

Allowance is made for the elderly moving more slowly, parents stop-ping to collect their children and individuals whose curiosity or bravery sends them against the flow to find the source of the

With random elements included, the sequence is run up to 100 times and the evacuation time estabthe building design, the process can be repeated.

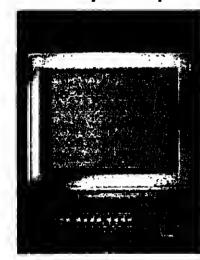
Such studies can show surprising results. In one minute, about 120 people can push through a doorway of the standard 74cm width. But if that is increased by 20cm, almost twice as many can leave in the

London'e planned £2bn Crossrail project will be designed with the help of Colt VR, which has been brought in by British Rail and London Underground to help with sta-tion design for normal use and

Graham Clayton

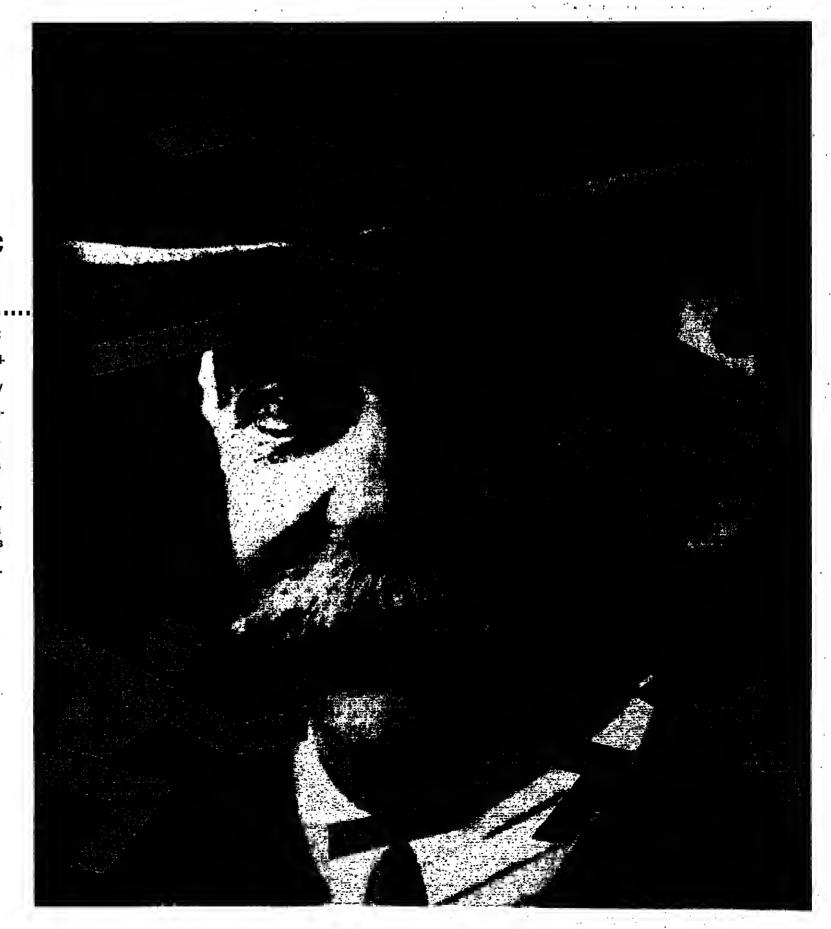
SIEMENS **NIXDORF**

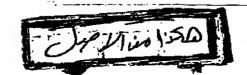
Dear Pierre de Coubertin, forgive us for changing your Olympic motto into our service philosophy: "Closer, faster, stronger".....



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The European spirit Synergy at work





Concert

Fine tuning

pretty label for a very good concert of microtonal music - i.e. music that employs some non-standard intervals between notes, smaller or larger than our "equal-tuning" system accommodates - which was what James Wood gave us in the Queen Elizabeth Hall on Monday, with his New London Chamber Choir and an ensem-ble from his Centre of Microtonal Music. (They are touring this concert, for the Arts Council's Contemporary Music Network; see below.)

Microtonee include, for example, "blue notes" in jazz. but also certain notes in various folk-music scales (nr modes, or Indian raga) that are too sharp or flat to be represented on a modern pianoforte. In the "Fine Tuning" programme, every piece either had re-tuned instruments or used nicrotonal slides for colouristic effects.

Kevin Volans' 1982 suite White Man Sleeps plays the ethnic card, with its two harpsichorda and its viola da gamba, a sort of cello with frets, pre-tuned to African modes. For some time, that seems to be the only piquant thing about its gentle dances; bnt a gamba solo with soft drums develops more inwardly, and later the composer begins to invent rbythmic patterns and counterpoint beyond anything in the original material. "Unacceptably Germanic," he now thinks (he wrote the suite while studying with Stockhausen in Cologne) - but without of the cologne would be

little more than a curio. Yliam for ten female voices. by the eccentric recluse Giacinto Scelsi (1905-88), explores the disconcerting effects of microtonal slides within sustained, almost motionless harmony. it freezes one's attention for its six minutes. For a dozen mixed voices, the 1968 Nuits of lannis Xenakis is a dramatically varied cry of painful sympathy for political prisoners, as often with Xenakis, the rawpunch that it packs overwhelms any donbt about

I'm No Angel simply focuses on Mac during her 1948 season in London. She admits to 45 is discussed by whether it is music, exactly: Jonathan Harvey's recent. Valley of Aosta (after an apocalyptic Turner canvas) conjures journalists as 55 (but as looking 40) up wild aural vistas, using its and is actually 57. She has her loyal microtones - pre-tuned on old manager (Gordon Sterne) in tow (who may once have been the only man she truly loved) - and, while in harps and synthesisers - to misdirect any ear hoping to London, she has an affair with an find a clear harmonic path 18-year-old boxer (Paul McNeilly) through the music. We surrender to the radiant, mercurial and also starts a friendship with a 55-year-old nun (Philippa Urquhart). colours. Through them, the guess, fictitious - respectively draw out the flesh and the spirit in our cus streams of bright, even notes - but they are tuned a Mae. Not that her flesh and spirit quarter-note apart. clash with each other; the author of

Wood's own Phainomena I'm No Angel, Ayshe Raif, gives Mae premiered a year and a half ago but much revised last summer, earns its right to serve as climax for the programme. Though he is a prolific comproser as well as conductor and percussion virtuoso, Wood's carlier pieces have been distina playwright, a novelist and then, guished chiefly by ingenuity ped his failing capacities, a magis-trate. He wrote The Grub Street and eclectic resource. The extreme, pungent contrasts in Opera in 1731, when it was banned Phainomena are theatrical as by the Prime Minister. The Magnificould be - but dramatic music not music-theatre: It sounds cent Theatre Company presents it at the Lilian Baylis Theatre in what it like a composer discovering his claims is the first staging. A fine, genial and good-humoured evening own cogent means to a strong, original purpose, rich and strange.

David Murray

Further performances Oxford 19th, Leicester 20th and Huddersfield 21st

Cinema/Nigel Andrews

Catch the magic carpet

Europe, where the once-roaring mouse now squeaks in terror at its quarterly bank statements. But in America, corporation and rodent have ridden high throughout 1993, mostly on the back of a single film Aladdin. Disney's new animated feature has outperformed last year's Beauty And The Beast to become the highest-grossing cartoon feature of all time. Why? How? What is happen

mg? Ten years ago paint-andbrush animation was pronounced dead or dying by many observers, including, I regret to say, me. The art had been hounded to an early grave - we all said - by such new pretenders as modelwork, animatronics and computer

Now look at the blushes on our faces. Aladam has been the year's second favourite film after That Dinosaur Movie and a mere five minutes in your seat will tell you why. Having seduced us with romantic traditionalism in Beauty And The Beast, Disney now turn 180 degrees and go for comedy mixed with high kitsch. The decor in *Aladdin* is out of *Kis*met via The Thief Of Baghdad. The characters are spoofy and (post)modern: led by a Tom Cruise-like Aladdin and a Robin Williams-voiced genie with a genius for mimicry. And the pace is so fast, so sure, that British Rail should take a look at Disney's Advanced Passenger Carpet as a serious poten-tial design model for 2002.

The story, we know, is simple enough to suit the breakneck pace. Boy meets lamp; boy ruhs lamp; boy, after minor setbacks, is helped by lamp to girl of his dreams: All the film's directors John Musker and Ron Clements

"I feel like a million - but one at a time:" Who else? Had Mae West not

invented herself, aomeone else-would have concocted her. When I

heard that I'm No Angel was a Mae West musical, I imagined one of

those biography-with-songs shows - and feared the worst. As it turns out,

he Disney company need do is follow the narrative may be in trouble in arrows. Wa begin with meloarrows. Wa begin with melodrama, mugged with a marvelious opening conceit: the "cave" is the mouth of a giant sand monster and Aladdin is chased from its innerds by a roaring, bilious spume of lava. Further metamorphic fun is sketched in by the villain Jafar and his staff that becomes a

> ALADDIN (U) John Musker, Ron Clements

THE MAN WITHOUT A **FACE (12)** Mel Gibson

THE STRANGER (U) Satyajit Ray

SO I MARRIED AN AXE MURDERER (12) Thomas Schlamme

POSSE (15) Mario Van Peebles

CHILDREN (15) Gianni Amelio

cobra. Then Robin Williams'e genie arrives, seizing the spot-light, the microphone and the movie's transformation fran-

Williams's performance is less a star turn, more a one-man galaxy expounding its chaos theory of comedy. When one inspired routine burns out, another flames up to take its place; all in nanoseconda rather than light years. The demented tinkling of an air stewardess's voice; Peter Lorre'e feline murmur for a line of necromantic apology ("I can't bring people back from the dead!"), here some Robert De Nirge them some Rotte Mid-De Niro, there some Bette Mid-ler, there again some Jack Nictics are matched by visual. The Disney artists swish their scene-stealer through all the lighting likenesses his voice invokes, calling on the latest computer technology to do so. At times the movie's mod-

ernist attack can feel like assault and battery. The princess, in keeping with feminist writ, is less a ahrinking violet than a ballbreaking career girl: I have met ber kind bebind many a Hollywood executive desk. And as for Jafar's parrot lago - need it be quite so deaf-eningly vaudevillian in its locutions? "Oh dat's a big surprise! I tink I'm gonna die of surprise!" etc.
But why are we complaining

of too much energy from a studio that not long ego, after Walt's death, seemed to be slipping into irreversible come? Aladdin and Beauty And The Beast prove there is undreamt-of life both in Disney and in the art of feature animation. And we we have not even mentioned the songs. Music hy Alan Mencken; lyrics hy Howard Ashman and Tim Rice; and my favourite was not the Oscar-winning "A Whole New World" but the preposterous, elephant-swaying, over-the-top, out-Intolerancing-Intolerance
"Prince Ali." Take the children, buy a sack of popcorn,

Half a Mel Gibson is better than no Mel Gibson. But The Man Without A Face, directed by Mr G, shows how stars do like to put their own charisma through the mincer whenever they get behind the camera. "Pizza face!", "Hamburger

head!" - these are among the friendly sobriquets lohhed by local children at the reclusive ex-schoolteacher with the burn-ravaged features (Gibson) who lives in a sea-washed mansion in Maine. Turn our hero



Aladdin', Disney's highest grossing cartoon yet: comedy mixed with high kitsch, all at breakneck speed

to the right and we get a per-fect Mel profile. Turn him to the left and we get Elm Street squishiness. Ergo: it takes no small act of courage for fatherless young Chuck (Nick Stahl) to approach old pizza-face and request some tuition for his military school entrance exam. He does not tell mother (Margaret Whittoo); for, good heavens, what would she think? Especielly since the man is suspected of having molested a boy years before, just prior to his scarring car crash.

Can you think of an odder choice for a movie star's directing debut? Then you have not followed the fashion in these things. Film Idols, when they become film makers, love to deface or deprecate their own glamour. (See Eastwood giving us wrinkles-and-all in Unforgiven), It shows that they are serious artists not just pin-ups. Gihson's film, though, never feels focused enough to offer either serious art or serious image-critique, Apart from some vague tut-tutting at small-town gossip and vaguer support for persecuted sexual minorities - Mel's mysteryman may be gay, even if he is unjustly suspected of ahuse the movie swills around in a soft stew of huddyism and surrogate-parent sentimentality. varied by the odd morsel red-herring Gothicism.

How we distrust those we do not know. This is the theme for the week's live-action movies. The Stranger is Satyajit Ray's last film: sedentary, even sciatic in its staging, but grace touched in its mastery of faces and feelings. Is the loog-lost uncle (Utpal Dutt) who hoves in view to reclaim a longwaiting bequest an impostor or not? And how can Mr and Mrs Middle-Class Calcutta Couple, the supposed relatives with whom he stays, find out without being rude? Like all Ray's late films, this

one features characters stuck as if hy superglue to the ances-tral armchairs. Occasionally, stiffly, they rise to walk about the room. And always they talk. But do not expect songs, knees-ups or Aladdin-ish pacing. What you get is a subtler dance of hewilderment: a soft-shoe shuffle of the soul, a grand old image-choreographer laying out steps to prove that in this world Nobody Really

Knows Anybody. Can you even know that your newly-wedded bride is not a serial killer? Mike Myers, aka Wayne of Wayne's World, has this problem in So I Married An Axe Murderer. High-street hutcher Nancy Travis seems so pretty, so nice ... Yet her CV does seem to correspond with that of the multiple murderer headlined on the front page of the tabloid rag Myers glimpses in his scandal-hungry parents' kitchen

This is Hitchcock's Suspicion with swapped sexes and often very funny, not least when it allows an irrelevant riff to get going. I loved Alan Arkin's cameo as a kindly police chief begged by his officers to be louder and more brutal. (They bave seen too many TV cop shows.) As for Myers, his moon-faced sincerity and permanent state of attentive wonapprentice lunatic - suggests there is mileage in this actor's mock-innocence even after he has finished with Wayne's Worlds 1, 2, 3, 4, 5... Oh that Myers had wandered

dehunkingly, a Candide for our age, into the cumbrous landscapes of Posse and The Stolen Children. The first is a black Western spurred towards pretension by director-star Mario Ven Peebles (of New Jack City): much racial sermonising, much sculptural posturing in the mise-en-scene, Gianni Ame-lio's The Stolen Children is a sentimental, prize-laden Italian film ahout two siblings orphaned by the law, Carted off towards a care home from delinquent Momma - she had put the 11-year-old girl into prostitution - they pal up with their young escorting officer. Result: tender, truant wanderings across Italy as humanity begins to glow through the trio's sullen armour. The idea intrigues; the execution is a touch maudlin and more than a touch longwinded.

Musicals

Mae West: I'm No Angel

The Grub Street Opera

an easy ride. Too easy, actually. Mae steams through her time in London, a determined symbol of sex and fun, and the main traumas that occur are in those around her: the boxer, the num, the manager.

Still, there is something terribly believable about that. The real Monstres sacres never doubt that they can sin and go to heaven; other-wise they wouldn't be sacres. Mae has her teenage hunk, she pays his mother hush money, and meanwhile she consults the nun, chiefly about We get to know the vulnerable sides of the lesser folk better than we do hers. I'm no Angel would be better if it showed just how terrifyingly invulnerable Mee is.

tuate the action. There are songs in

praise of roast beef and ale, prepara-

tion for the orgies of consumption in

his novels; and a deliciously rhymed

paean to tobacco which leaves most

current West End lyricists out of

Grub Street was an area of London near Moorfields full of "scabrous

hacks" and hired scribblers. Ths

Grub Street Opera teems with the

extinct worldliness of the 18th cen-

tury. Alongside the usual impreca-

- Fielding trades in perfidy, reputa-

tion and rank. All his characters are

The production, directed by Ben

intelligent and capacious.

- "Lookye . . . Egad . . . Pshaw"

What about the one-liners and the songs that Mae was famous for? They are here in plentiful supply. The jokes are Ingeniously worked into the dialogue: Nun: "Twe heard so much about you". Mae: "But you can't prove a thing." Nun, laughing." I lettered so much when I first. "I laughed so much when I first heard that line." The songs are sim-ply part of Mae's routine - her London show, her daily work around which she fits in sex with the boxer and psycho talk with the nun. Lynda Baron plays Mae. Like the

view of Mae, but my only big complaint is that her more vehement scenes lack force. She sings well well enough to make you attend to all the wordplay in "I Want to Feel

Crocker, fizzes along, but fails to

simple, inventive raised platform

strewn with playbills and bil-

lets-doux. The acting, particularly

from Richard Pocock as the resident

fop, is precise and deliciously over-

done. The cook wears an apron of quilted poultry and brandisbes a

rolling pin, the maids twitter, the

butler curses and the parson drinks:

At the centre is Sir Owen Apshin-

ken, a Welsh gentlemen slowly

drinking himself asunder to escape

his shrewish wife. Their frisky son,

e perfect Georgian aymmetry.

that Lowdown Music Trickle Up my Spine"; and she speaks the way she sings. No doubt the original Mae had more bite, danger, voluptuousness. But Baron combines fun, heavy-eyed glamour, grit, and sheer camp, all with enough finesse to make you

believe, at least, in her Mae.
Patrick Sandford directs. Much of
the first balf's dialogue could be

Alastair Macaulay

At the Nuffield Theatre, Sonthampton. 0703 671771

Master Owen, all flounce and flutter. chases the maids but runs out of ideas when the chase is up. Below stairs, an entire petty larceny of servants cheat their way through life. find anything worth caring about, and has to jump-start itself after every song. The travelling set is a

Behind Grub Street lies Fielding's satire of the dim George II, the pretentious Queen Caroline and their lecherous son Frederick Prince of Wales. Since the satire has not been altered to suit the present times, the strength and scandal of Fielding's original has been lost. But on this form, and theirs, the royal family should be grateful Fielding stopped writing two and a half centuries ago.

paced with more cooviction, but the show runs smoothly and entertainingly. If it dared to take a more searching view of the ruthlessness, deceptions, and doubts involved in preserving Mae West, it would be more memorable. More sexy also. As It is, it is a happy reminder of why Mae remains an icon. "A lot of men like a gal with a past. They hope

Andrew St George

Lilian Baylis Theatre, EC1 (071 837 4104) until Nov 27; then on tour

Theatre/Malcolm Rutherford

Fun with Faustus

formed one forgets just bow much of Christopher Marlowe's Dr Faustus is made up of knock-about comedy rather than grand verse. The appearance of Helen of Troy and Faustus's immortal lines in response stick in the memory more than the seven deadly sins or the antics of Faustus and the friars in the Vatican. Yet the production at Greenwich, where Philip Franks moves from an acting to a directing role for the first time, together.

Some details are perverse. The good and bad angels are a pretty scruffy pair of women, made peripheral to the story. Lucifer makes bis first appearance in what look to be his underpants. The scene is set in a bed-sit, admittedly a very large one, possibly close to the University of Newcastle. One guesses the plece because

Jonathan Cullen's Faustus has a distinct Geordie accent - or has it become the fashion after Alan Cumming's Scottish Hamlet that heroes now come from the north? As a student he must be on a grant since, for such a learned man, he has very few books around. Presumably he borrows the key texts from the library. It takes time to adjust to this cul-tural shift. Mephistopheles helps to put it in place. Played by Hugh Ross, he is a very tall, suited figure in e long overcoat. He might be the vice-chancellor, or a senior, defeatist civil servant who has seen it all before; a very fine performance.

remarkably well, especially the seven deadly sins. Pride appears through the mirror. Covetousness climbs cleverly out of a suitcase lying on the floor. Gluttony falls out of the fridge. Sloth crawls up through the sofa. Lechery looks all that her name implies, and more; it is entirely fitting that the same act-ress, Allie Byrne, should also play

The Vatican scenes, where an invisible Faustus plays havoc with riestly rituals. right side of amusing. The borse coursing scene just misses, and this is the trouble with playing Faustus in full. The more low comedy there is, the more it distracts from the tragedy and poetry of Faustus the man.

Playing the complete text means that Faustus only comes into his own towards the end when be has a sudden rusb of spectacular speeches disproportionate to the rest of the piece. It is only shortly before he bas hut one bare hour to live that Cullen's Faustus emerges as a tragic hero. He delivers the wonderful final soliloquy with great passion and intelligence. One cannot help wondering, however, why he has to live in quite such drab surroundings.

There is some very striking accompanying music to the play composed by Jeremy Sams, yet again it has the effect of being slightly too elegant for the set.

Greenwich Theatre until December 11. (081 858 7755)

INTERNATIONAL

ATHENS

Megaron Tonight, tomorrow: Rudra Béjart Lausanne in choreographles by Maurice Bejart. Mon: Jacques Delacôta conducts Italian opera gale, with Rosalind Plowright, Dennis O'Neill and Ruggero Raimondi. Tues: Tatiana Nikolaeva plays Bach's Goldeberg Variations. Wed: Alexandros Myrat conducts La Camerata in works by Eiger, Honegger, Mozart and Shostakovich, Nov 27, 28; Nikolaus Hamoncourt conducts Chamber Orchestra of Europe, with violin

■ BOLOGNA

yeatro Communale Vladimir Splvakov conducts the Moscow Virtuosi on Mon In works by Elgar, Mozart, Schnittke and Shostakovich. The 1993-94 opera season opens on Nov 27 with Puccini's Trittico (Biglietteria, Ente Autonomo Teatro Communale di Bologna, Largo

soloist Gidon Kremer. Dec 5, 6,

(01-728 2333/01-722 5511)

7: Czech Philharmonic Orchestra

telephone bookings accepted. For information, call 051-529999)

enry Fielding (1707-1754)

when his libertine desires outstrip-

it makes, too, all partridges and

Fielding comes over as a sharp

lyricist and a facile plotter. In fact, the plot is a cipher, and hardly mat-

ters. The opera has 60 airs, spontane-

ous soundbites of song which punc-

bumpers of ale.

managed more in one

lifetime than most people

could in several. He was

■ BARCELONA

Gran Teatre del Liceu Sat: Elena Obraztsova song recital. Dec 4: first night of Donizetti'e La fille du régiment with Edita Gruberova (tel 412 3532 fax 412 1198) Palau de la Musica Tonight: Julliard Quartet plays string quartets by Haydin, Claus Adam and Schubert (268 1000)

■ FLORENCE

Testro Communale Tomorrow, Sat, Sun: Carlo Maria Giulini conducts Tchaikovsky'e Second Symphony and Musorgsky's Pictures from an Exhibition. Next week's concerts are conducted by Gianandrea Gavazzeni (055-277

■ LONDON

THEATRE Angels in America: Tony

Kushner'a two-part epic can be seen in its entirety for tha first tima on a British stage. The second half, Perestrolle, joins Millenium Approaches this weekend in the Cottesioe, both directed by Declan Donnellan (National 071-928 2252) The Iron Man: the world premiere of a new rock opera by Pete Townshend, adapted from s story by Ted Hughes, directed by David Thacker. Previews begin

on Saturday, press night November

25 (Young Vic 071-928 6363) Respighi 1, 40126 Bologna. No Moonlight: Ian Holm and Anne Massey head the cast in Harold Pinter's first full-length play for 15 years, in a West End transfer of the Almeida production (Comedy

She Stoops To Conquer: the Peter Hall Company presents a revival of Oliver Goldsmith'e

evergreen Restoration romp about mis-matched love and mistaken identities, starring Donald Sinden (Queens 071-494 5041) Relative Values: Tim

Luscombe's admired Chichester Festival production of Noel Coward'e comedy, with Susan Hampshire and Alison Fiske (Savoy 071-836 8888)

OPERA/DANCE Colliseum Mark Elder conducts tha first night on Sat of Tim Albery's production of Lohengrin, designed by Hildegard Bechtler and Nicky Gillibrand, with a cast led by John Keyes, Linda McLeod, Linda Finnie and Malcolm Donnelly. The production, ENO's first new Wagner staging for 10 years, runs till Dec 29 in repertory with Le nozze di Figaro, il barbiere di Siviglia and Dia Fledermaus (071-836 3161) Covent Garden Tha Royal Ballet has MacMillan's Romeo and Juliet, a double-bill pairing Balanchine's Ballet Imperial and Ashton'a Tales of Beatrix Potter, and a mixed bill including MacMillan's Different Drummer and Forsythe's Herman Schmerman. The Royal Opera's repertory over the next two weeks is devoted to Martin Duncan'a production of Die Zauberflöte, originally staged by Scottish Opera, with changing casts including

Amanda Roocroft, Sumi Jo and Wolfgang Holzmair. Tosca is revived on Dec 4 with Anna Tomowa-Sintow (071-240 1066)

THE PURCELL EXPERIENCE Roger Namington leads a weekend of talks, discussions, rehearsals and performances at the Queen Elizabeth Hall, starting nn Sat afternoon and ending with a semi-staged performance of The Fairy Queen on Sun evening. This ie the second part of the South Bank'e exploration of Purcell, leading up to his tercentenar celebrations in 1995 (071-928 8800)

CONCERTS South Bank Centre Tonight: Bernard Haitink conducts LPO In works by Mozart and Shostakovich, with piano soloist Emanuel Ax. Tomorrow: John Lill plays Brahms Second Piano Concerto. Sat: Libor Pesek conducts RPO in Nielsen, Shostakovich and Mahler, with violin soloist Arve Tellefsen, Sun efternoon: Sviatoslav Richter piano recital. Sun evening: Leonard Slatkin conducts Saint Louis Symphony Orchestra in Vaughan Williams, William Bolcom and Richard Strauss, with flute soloist James Galway. Mon: Yan Pascal Tortelier conducts BBC Philharmonic in a Gorecki programme. Tues (RFH): Giuseppe Sinopoli conducts Philharmonia Orchestra in Schubert. Mozart, Rossinl and Respighi, with mezzo soloist Cecilla Bartoli. Tues (OEH): Sian Edwards conducts Docklands Sinfonietta in Zimmermann, Berg, Penderecki and Welll, with violin soloist Tasmin Little. Next Wed: Wolfgang Sawallisch conducts LPO in Pfitzner,

Shostakovich and Beethoven, with celln soloist Lynn Harrell. Nov 29: Alfred Brendel. Nov 30: Sawallisch conducts Richard Strauss. Dec 4: Boston Symphony Orchestra

(071-928 8800) Barbican Tonight: Kent Nagano conducts LSO In works by Boulez, Mozart and Mahler, with piann soloist Barry Douglas (repeated next Thurs with vinlin soloist Sarah Chang). Sat. Andrew Constantine conducts ECO and Thomas Tallis Choir in works by Bach and Faure. Sun: Nagano conducts British premiere of Messiaen'e Eclairs sur l'Au-delà. Mon: Nikolaus Harnoncourt conducts Chamber Orchestra of Europe in Beethoven. Tues: Sylatoslav Richter plays Bach (071-638 8891)

■ MILAN

Teatro alla Scala Sun: Nicolai Gedda song recital. Mon: Mirella Freni sings arias by Cilea, Puccini and Verdi, with orchestral accompaniment conducted by Maurizio Benini. Dec 7: opening nf 1993-94 opera season with La Vestale (02-7200 3744)

MADRID

Teatro Lirico La Zarzuela Tonight, tomorrow, Sat: Compagnia Angelin Preljocaj in choreographies by Preljocaj. Sun: Antoni Ros Marba conducts Madrid Symphony Orchestra in Bruckner'e Eighth Symphony (01-429 8225) Auditorio Nacional da Musica Tonight: Spanish National Chorus in music by 16th century Spanish

composers. Tomnrrow, Sat, Sun: Pedro Ignacio Calderon conducts Spanish National Orchestra in works by Pedrell, Piazzole and Sibelius. Next Tues: Ruggero Barbiari conducts Madrid Classical Orchestra in Mendelssohn, Chaviano and Schubert (01-337 0100)

■ PRAGUE

Kazushi Onn conducts Czech Philharmonic Orchestra in works by Wagner, Beethoven and Shostakovich tonight and tomorrow in Dvorak Hall, piano soloist Grigori Sokolov (02-286 0111). Also Daniel Schweizer conducte Czech Radio Symphony Orchestra next Tues in works by Kalach, Beethoven and Schubert, piano soloist Glovanni Bellucci (02-232 2501)

■ ROME

Teatro Olimpico Tonight: I Virtuosi di Roma play works by Vivaldi, Boccherini and Albinoni, with contratto Francesca Franci. Next Tues: Momix Dance Theatre, choreography by Moses Pendleton, music by Peter Gabriel. Dec 2: John Eliot Gardiner conducts Monteverdi (06-320 1752)

■ VENICE

Teatro La Fenice Sat: Garcia Navarro conducts first night of Pier Luigi Pizzi's new production of Mosè in Egitto, with a cast led by Ruggero Raimandi, Robert Swensen and Luciana Serra. Repeated Nov 23, 25, 28, 30, Dec 2 (041-521 0161)

ARTS GUIDE Monday: Berlin, New York and Paris. Tuesday: Austria, Belglum, Netherlends, Switzerland, Chicago, Washington. Wednesday: France, Ger-

many, Scandinavia. Thursday: Italy, Spein, thens, London, Prague. Friday: Exhibitions Guide. European Cable and Satellite Business TV (All times are Central European Time)

MONDAY TO THURSDAY Super Channel: European Business Today 0730; 2230 Monday Super Channel: West of Moscow 1230. Super Channel: Financia Times Reports 0630 Wednesday Super Channel: Finencial Times Reports 2130 Thursday Sky News: Financiel Times Reports 2030; 0130 Friday Super Chennel: European Business Today 0730: 2230 Sky News: Financial Times Reports 0530 Saturday Super Channels Finencial Times Reports 0930 Sky News: West of

Moscow 1130; 2230 Sunday Super Channel: West of Moscow 1830 Super Channel: Financial Times Reports 1900 Sky News: West of Moscow 0230; 0530 Sky News: Financial Times Reports 1330; 2030

n the course of preparing some essays for publication, I had to look at a chapter I had written for a book which appeared in 1989, to commemorate the 10th anniversary of the Thatcher government. The point was to see No upwardly mobile freeway to the future

stumbling giant of the world car industry, it took an unprecedented two-etage

coup last year by the company's outside directors to oust the old management in a last-ditch effort to drive the company out of the biggest losses recorded in US corporate history.

Volkswagen, the leader of the European car industry, is racked by losses. The high-cost producer of the world car dustry, it is enduring a corporate and cultural revolution.

A large part of its senior management has been discarded in less than a year, its chief executive looks more isolated each day and is fighting s lonely battle, with his closest colleague under investigation by the German public prosectutor for alleged industrial

Toyota, the leader of the Japse industry, is much less obviously in trouble, hut its previous air of invincibility is being undermined. The stubborness of the domestic Japanese recession, the surging yen and sales problems in foreign markets have combined to all but wipe out its operating profits. It too faces a leadership crisis, as the company struges to move beyond the era of

the Toyoda family dynasty. Must Toyota face a crisis as severe as those of GM and VW in order to change? The question is posed by Maryann Keller, a leading US financial analyst of the world auto industry, whose latest book Collision is a compelling account both of the storms buffeting the world'e carmakers and of the executives strug-

gling to stay at the helm. "Toyota is clearly losing momentum and is bogged down by its responsibilities as Japan's number one corporate citizen. Whether the company slips into mediocrity or retains Its leadership role depends npon Tatsuro Toyoda (Toyota president since September 1992), a man not known for decisive action at a time when the company needs vision and leadership," argues Keller. She has set out to chart the

COLLISION By Maryann Keller Doubleday/Currency \$25, 285pp

fluctuating fortunes of GM, Toyota and Volkswagen, the leaders of the auto industries of North America. Japan and west Europe, as they career along a collision course not so much with each other but with the unfamiliar challenges of the 21st century.

Misleadingly, Keller has chosen to coin the phrase the "global big three" to describe ber target companies. The industry is dominated by at least a global big five. Ford, the number two US carmaker, is bigger than both Toyota and Volkswagen. Nissan, the number two Japanese carmaker,

vies with Volkswagen in size. Keller is not interested in sucb nicetles, however. Her subjects were not chosen in deference to the industry's pecking order, but to use the companies as a way of exploring the national cultures in which they are embedded.

At such an elevated level the book falls short, in particular, ae Keller travels away from North America It often becomes little more a travelogue and a beginner's guide to the cultural histories of Germany and Japan.

Within the more narrow focus of the world motor industry, however, Collision prorides a riveting look at some of the forces that have chaped the fortunes of the three carmakers during recent decades and provides intriguing insights into the personalities at the top of the world's dominant manufacturing industry, as well as those who have fallen by the wayside.

Best-documented by Keller is the upheaval that has riven GM, the company where her inside knowledge is greatest. She gives a damning portrait of GM during the era of Roger Smitb's "wild destructive reign" in the 1980s, and during the unhappy and short-lived tenure of his successor Mr Rob-

ert Stempel. By the beginning of the the 1990s, "GM reflected more the crumbling decay of Detroit's inner city than the durability of its granite and marble headquarters building ... A visit to

the 14th floor (the executive office suite) was like entering a time warn from GM's glory days. General Motors was a perfect example of the contemporary corporate malaise. where income and privileges bore no relation to perforernment. The point was to see

what, if anything, should be

made a start in removing some

of the impediments to eco-

nomic success. During the

post-Thatcher years the ground

seemed to have been lost

again, first because of the

resurgence of inflation and the

high interest rates needed to

combat it and afterwards by

the recession which proved

longer, more drawn out and

more debilitating than almost

anyone expected. Recently.

however, international compar-

isons have moved in favour of

the UK again. Recovery, if

patchy and uncertain, has

arrived earlier than in conti-

nental Europe, while Japan is

stuck in a deep recession; and

the economic debate has

moved to the labour market

rigidities which the UK has

But the statistical dust of at

least another business cycle

will have to settle down - and

the last one went on for over a

decade - before any quantita-

tive conclusions can be drawn.

Thus I was glad to come across

a book which moves away

from inconclusive numerical

comparisons and sheds some

light on why even someone

who welcomed the 1980s

emphasis on competition and deregulation should still feel

uneasy about some of the cul-

tural aspects of the Thatcher

revolution, including those

that live on under the Major

The book in question is The

Economics of Business Culture by Mark Casson (published by

the Clarendon Press in 1991). It

may be a surprising one for a advocate of market competi-

tion to cite. For the author

seems to hanker after some-thing like the "business plan

for Britain" with which John

Smith wooed gullible CBI

members at Harrogate this

week. And Casson does not

devote nearly enough attention

to the role of competition in

providing new products and

new processes, and putting

Yet the best way to approach

such a book is to see what can

be learned from it rather than

where it is open to question.

Professor Casson's object is to

develop a rigorous economic

downward pressure on prices.

taken a lead in removing.

added by way of postscript. The answer was: Surpris-ingly little. That government

While many of the GM lead-ers suffer from the acid of Keller's pen, she is equally telling in her description of the leading personalities at Volkswagen, Mr Carl Hahn, chief executive until the end of last year, and Mr Ferdinand Piech, the man who has spent 1993 struggling with his predecessor's doubtful legacy.

"Piech was cut from a differ ent cloth than Hahn. While Hahn was smooth as silk, a consummate charmer who enjoyed the public stage, Piech was balding, slope-shouldered and haggard - always uneasy in the spotlight."

At Toyota Keller leaves Do donbt that she believes that the company is heading for a leadership crisis, and that in one of its most difficult periods the family has chosen a weak leader in the shape of Tatsuro Toyoda, not groomed like his brother and predecessor Shoichiro, to lead the corporation. "At Toyota, regardless of how high the rank might be, everyone bowed to Shoichiro. But at Toyota Motor Sales, Tatsuro bowed to others."

The case arguing the relative weakness of Toyota only partially succeeds, but nonetheless she is ready by the end of Collision to pick ber

VW is dismissed for having "spun in its own narrow orbit" for most if its history. "Of the three companies it may he the least adaptable to

Toyota is the most complex because it is standing where GM was 30 years ago. "It knows how to be successful. The question is: does it know how to function in a less

Which is the best car company in the world? "I am compelled to answer. The one that has most recently overcome great problems,' Right now that company is General

Kevin Done theory which retains the central position of rationality in

ECONOMIC VIEWPOINT

New light on 'trust versus law'

By Samuel Brittan

traditional economics and of the individual as the unit of decision, but which drops the postulates of materialism and

selfishness Without having worked through all the detailed chapters, it is difficult to say how far he has succeeded - the book deserves more attention than It has received. Most of the analysis relates to ths internal relations of organisations. The pupil who shared my first year economics super vision at Cambridge, and who worried about the selfish motives of the textbook businessman who tried to equate marginal cost with marginal revenue, might still not have known how to react, even if he had been able to foresee this book. Nor is it clear how the advice of top Treasury officials such as Sir Terence Burns or Professor Alan Budd about the forthcoming UK Budget would be different if they had absorbed Casson's message.

Yet the basic thought bekind it is sound. This is that the largest costs in a modern economy are transaction costs, and that these are minimised in an atmosphere of trust - in contrast to an atmosphere where everyone tries to take advantage of everyone else, and no-one moves without a lawyer. An example of what can go wrong has just been given by a so-called rightwing member of the British cabinet, John Redwood, when he spoke of the growth in the number of distant Health Service "managers in grey suits" all too ready to solve their problems by closing

down hospital wards. What Casson does not explain is how to combine co-operation and trust within organisations without this extending to anti-competitive collusion between them. I still think the best solution is the one outlined in my 1985 Wincott Lecture: an honest explanation of the benefits of competition and the profit motive as a means to the general welfare, without making this part of the "devil take the hindmost"



of life, so bitterly satirised in J B Priestley's play An Inspector Calls, now enjoying such a successful revival in

Competition as a system of economic relations need not be based on personal hatred or mutual hostility. Rival small

An atmosphere of trust minimises transaction costs in a modern

economy

entrepreneurs linked by electronic cable to their main customers or suppliers need hardly be more aware of each other's existence than the small farmers of Thomas Jefferson's ideal republic. Market economics comes in

many shapes and sizes. Casson

puts his finger on the mark when he writes that that the supply side package imported from the US "comes laden with certain cultural presuppositions - amongst them the view that because people cannot be trusted, formal methods of enforcing competition between them are essential in all areas of activity ... The US emphasis on the law as an enforcement mechanism is a related cul-tural attitude which may not 'travel' well." He also describes the way in which these attitndes have been borrowed from the US when many successful private antsrprise organisations are making their management styles more human and informal, supposedly under Japanese influence. Thus his unease sxtends

beyond British admirers of US.

economic and management

styles and extends to the tenor

of the advice that the main-

stream international organisations are giving the former communist and developing countries. How does this analysis apply to current contentious issues, such as the (now stalling) initiative to reform the civil service through devolution to smaller agencies and through market testing of services to ascertain whether they should stay the public sector?

fiatives as characteristic of an authoritarian leader who not only does not trust other people in general but "cannot even trust a few people to do his monitoring for him. The leader will also favour strong interpersonal competition, sustained by making people rivals for one another's jobs: The intensity of competition may be further raised by creating a pool of unemployed or marginal members who are ready to step into other people's jobs at short notice."

These words may be a good description of how cabinets are reshuffled in Britain. But if one wants e more co-operative style in government in general, smaller units are the first essential Loyalty and non-material satisfactions are likely to be more important in an independent hospital or in a hived-off administrative unit than in a vast organisation like the

National Health Service. Nor, indeed, did proposals to hive off units originate with the Thatcher administration. They date back further. I first came across them in a 1960s Fabian pamphlet. Permanent secretaries who are obstructing the hiving-off drive, or propos-als to advertise senior White-hall appointments, are behavmg more like male baboons fighting for territory than cru-

saders for higher values. Many people have described the paradox that market liberalisation has gone hand-in-hand with a shift of power from intermediate sources of authority to central govern ment. Casson is right to detect inciplent anthoritarianism

behind free market rhetoric. But another factor has surely been an excess of caution. Governments have not had the courage to undertake the drastic reforms which would make, for instance, local authorities or universities responsible for the hulk of their own financing. This is why Whitehall centralisers have acquired their hold. Perhaps the answer to the paradoxes generated by the Thatcher attempt to get the state off the people's back is to carry it further and really

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Perfume ruling cannot go unchallenged

in such e way as to preserve an up-market image and to charge prices that generate a retail profit of 40-60 per cent of the retail price, and which refuses to supply outlets which might reduce that price is not acting

against the public interest. At least, so says the Monopolies and Mergers Commission in its report on the way. mainly foreign, fragrance com-panies distribute perfume prod-ucts in the UK ("Perfume outcome surprises observers". November 12). The report canluxury products and the MMC accept that the suppliers need to be able to control their distribution in order to protect their brand images which cus-tomers evidently value. There is no shortage of other fra-grances at much lower prices." in other words, perfume companies must be allowed to restrict distribution and supply in order to keep prices high; only if they are paying high prices do consumers think they

are obtaining value.

wise, all future cases of relatively high prices can be justi-fied on the grounds of protecting the brand image to the benefit of consumers. This is not right and is unsupported by mainstream economics. When confronted with the

MMC decision the question provoked is - who guards the guardians? One answer could be a House of Commons select committee. If the Office of Fair Trading, MMC and Department of Trade and Industry cannot protect the consumer from

implementation of new public

From Prof D G Rhys.

Inot be clearer in its support of high prices when it says: "Fine industry which sells products of fragrances are marketed as stand unchallenged. Other to remove the barrier to lower prices would reduce the upward pressure on the retail price index and persuade government to be more positive in ... stimulating growth.

To undermine the position of fragrance houses, high price supermarkets, electrical and audio visual shops and so on would be a genuine supply side improvement that reduced the natural rate of unemployment. D G Rhys, head of economics,

Cardiff Business School, Colum Drive, Cardiff CF1 3EU

Unfortunate advice

From Mr Jeremy Bescham.

Sir, Tony Baldry'e advice to local authorities on tendering is misguided, if not wrong. He states (Letters, November 16) that "it is not possible to decide whether Tupe applies until the contractors' proposals are seen". Not only is it often possible to make such a judgment, legal advice we have sent to local authorities indicates it would be absurd in many cases not to. Indeed, we have found that contractors often prefer the certainty of knowing what the position is

when making their bid. Mr Baldry bslieves he has issued further advice on this matter. I thought we were cur-rently consulting him on this. He has clearly already made up his mind. That is unfortunate as his advice flies in the face both of the law and common sense. His letter is symptomatic of the government's attitude to Europe - seeking to evads its responsibilities. Local authorities, however, recognise they have obligations under European law and will act in

the light of them. What must be deplored is Mr Baldry's attitude in threatening local authorities that if they do not do as he says he will take action against them. It is time for a more considered and helpful approach to this Jeremy Beecham,

Association of Metropolitan Authorities, 35 Oreat Smith Street, London SWIP 3BJ

Other ways to connect N American economies

From Mr Cameron Duncan. Sir, Your editorial on the results of the state and local elections in the US ("Democrats in retreat, November 4) included the assertion that "there is no doubt that the US economy would benefit from Nafta". There are many mem-bers of Congress, as wall as citizens in Canada, Mexico and the US who would disagree with you and would favour a

The MMC judgment on the

Nafta, they have discovered, is not simply a "free trade" agreement integrating the economies of North America. It is also a programme to entrench the conservative practices of the Reagan-Bush era. By tying restrictions on government regulations and

different sort of economic inte-

services and environmental protection much more difficult. If Congress does pass Nafta, environmental regulations, health and safety standards, educational policy and labour law will all be affected. Social policy will be taken outside of the democratic process, restricted by an international agreement and regulated by unelected trade bureaucrats Under Nafta, any US laws thet restrict the sales of goods because of the way they are produced - either by environ-mentally-destructive processes or unfair labour practices would be subject to challenge by Mexican or Canadian com-

Even more important, social gains in one country would trade deal, Nafta makes the | Why should a company comply

mental laws in the US when It could avoid them by moving to Mexico? There are alternative ways to connect our economies. A new Nafta could, for example, include a social charter that would protect environmental and labour laws and provide funds for raising incomes in poorer regions. We could enjoy the advantages of international trade without enshrining the "free market" as an unlimited mechanism for organising economic life.

Greenpeace does not oppose international economic integration, but on social and economic grounds we oppose the sort of integration that this agreement would provide. Cameron Duncan

1436 U Street NW Washington DC 20009, US

West can aid former Soviet bloc nuclear clean-up

From Mr Roger Hayes. Sir, Bronwen Maddox'e trip to Chernobyl (November 15/16) has highlighted the need to clean up the contamination caused by the world's worst nuclear accident. She was right to point out that there is no evidence to support claims that 8,000 people have died as result of the accident. However, the fact that 42 people did die and considerable contamination remains, illustrates that the nuclear industry in the former Soviet Union needs all the help

it can get to put things The British nuclear industry

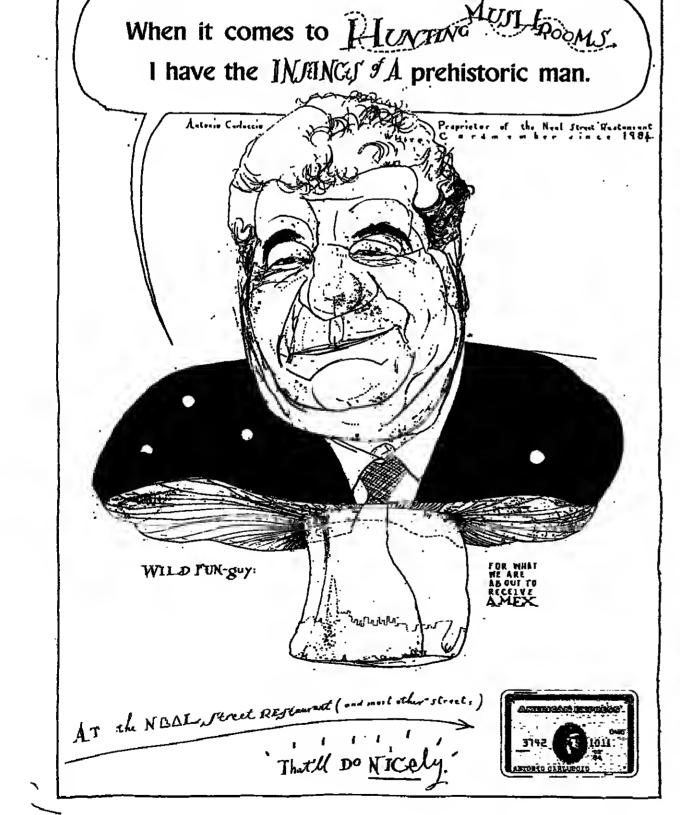
Take contamination. A British consortium, involving among others AEA Technology, has recently developed a "Chernobyl clean-up strategy" which has been funded by the For-eign and Commonwealth Office's "know-how" fund. This will help the Ukraine secure the funding it needs for specific projects designed to return contaminated land to more normal conditions.

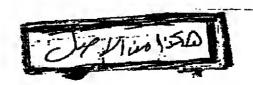
Russian Chernobyl-type RRMK reactors were not built to western safety etandards and they had inherent design weaknesses which were exposed in the 1986 accident. In has been at the forefront of response, Britain leads a conproviding the necessary help. | sortium of European countries | London SWIE 6LB

funded by the EU. This project will identify how to upgrade the safety features of RBMK reactors and bow to make them as close to western standards as possibls. Britain and other western

nuclear powers have the ability to put right what is wrong in the former Soviet bloc. Your correspondent's rsport has mada a helpful contribution by keeping the whole topic in per Roger Hayes, director-general British Nuclear Industry

Forum, 22 Buckingham Gate,





FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700 Thursday November 18 1993

Talking to the Chinese

yeere · market-oriented reform, China is transforming itself into an economically liberal, open and powerful market economy. Its cities look more and more like other Asian cities with new office and apartment blocks, busy department stores, karaoke bars, and traffic ams caused by cars instead of bicycles. The economic achievement of Mr Deng Xiaoping, China's senior leader since reform began, is already substantial, es today'e FT survey, makes clear.
And this procese is almost cer-tainly irreversible: political power is too decentralised, the constituency which has benefited from reform too widespread and

ule

Yet for the outside world, the enduring image of China remains that of tanks crushing tha 1989 protests in Tiannanmen Square, a dark reminder that China's spectacular economic success has been built on a repressive one-party state. It is this contrast between China'e economic dynamism and political backwardness which continue to make China'e relations with rest of the world so

The country is, without doubt, an economic force to be reckoned with, as demonstrated by the fact that the Chinese president, Jiang Zemin, will hold one-to-one meetings with the Japanese, South Korean and US leaders at this week's Apec meeting in Seattle. Companies from east Asia and, increasingly, the US, have responded to China's open door policy by investing billions of dollars. The rest of the world's economic stake in China's development is large and growing

Inefficient bureaucracy

Not that the reality of China's economic development fully lives up to its image. The state enter-prise sector remains an inefficient drain on the economy, social welfare provision is undeveloped and 100m Chinese still live in absolute Tuling poverty. Reform has also brought problems. By unleashing strong provincial ambitions, Beijing has weakened its ability to exercise macroeconomic control. Meanwhile, huge ranks of poorly-paid bureaucrats, still with considerable powers, mean that China's bureaucracy is both inefficient

of and riddled with corruption.

But it is the manner in which China conducts its internal affairs which remains the biggest prob lem for many outsiders, particu-larly in America. The rule of law and freedom of speech remain subservient to the party line, while documented human rights abuses

are legion. Little wonder that the US has been tempted to link economic concessions - in particular on trade - to progress on non-eco

Human rights

President Bill Clinton's success in persuading Congress to renew China's Most Favoured Nation status this year depended, in part, on his willingness to link next year's renewal to China demonstrating "substantial progress" in tackling human rights abusee, progress which China has yet to demonstrate convincingly.

Yet to try to ostracise China from the world community or to blunt its open economic develop-ment with trade restrictions would be e grievous error. Market reform in China may be irrevers ible, but the outside world has the power to speed or impede that pro cess. And the pace at which this change occurs is, almost certainly, the most important determinant of the rate of political change.

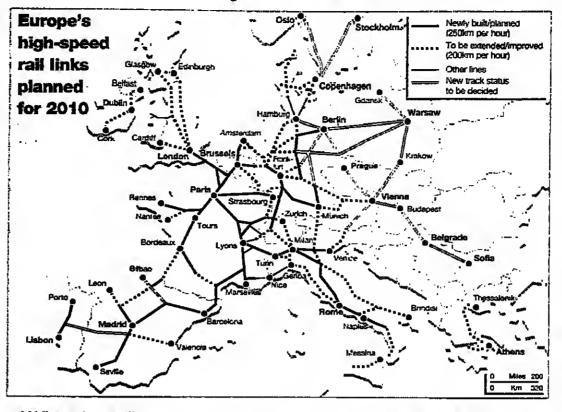
The evidence from elsewhere South Korea and Taiwan are good growth and liberalisation intensify the pressure for political freedom and democratic change, Closing the door on China, and thus effectively slowing the flow of western capital, practices and ideas into the country, can only slow that

In short, renewal of China's MFN status is the best way to encourage political change, a fact that in recent weeks Mr Clinton has shown he recognises. His desire to engage China in a co-op-erative rather than antagonistic relationship is the right course. China's new wealth and status mean that it too has bigger responsibilities - to honour its obligations to counter nuclear proliferation, accelerate progress on human rights and resolve out standing trade disputes. But progress is more likely to be achieved if US concerns are carefully

explained rather than delivered

John Ridding and Quentin Peel on the competition between European groups for high-speed rail contracts f Mr Claude Darmon is right the world's railways may be entering a new golden age. The bead of transport

Next chapter of the railway children



and Melbourne in Australia. Siemens and AEG have just spent DM17m (£6.7m) sending a full ICE train to the US, first to undertake a coast-to-coast promotion trip ("Ride the ICE train, the hottest thing on rails" goes the hlurb), and oow to

on the Amtrak lines from Washington to New York. Both sides have taken in US partners; GEC-Alsthom has linked up with Morrison-Knudsen, and Siemens-ARG with General Motors.

Even so, Mr Martinsen believes,

the US market will develop quite

run for a three-month trial period

In Europe, therefore, the potential may be greater. At the moment the economic environment is difficult, The effects of recession and the constraints on government budgets have forced the postponement of several TGV orders. Last month, GRC-Alsthom was forced to announce a cost-cutting plan which includes the loss of 660 jobs from its

French workforce of more than 9,000. But the first steps of a significant expansion in European high-speed rail links are under way. The decision by the French gov

ernment in September to huild a new high-speed line between Paris and Strasbourg raises the prospect of the TGV travelling across the border into Germany. It will already do so on the planned Paris-Brussels-Amsterdam and Cologne route, for which 27 trains have been ordered. The French authorities have also authorised an extension of the

south-eastern line from Lyon to Marseilles and to Montpellier, That would all appear to be to the clear advantage of the TGV.

In Germany, bowever, the ICE consortium has just won the DM2.2bn next-generation contract for an ICE-2, half the size of the original train, but capable of being linked in pairs to provide greater flexibility. ICEs are now running between from Hamburg in the north

Women's jobs are increasingly being poached by the opposite sex, writes Rachel Johnson

and Berlin in the east to Frankfurt, Munich, Stuttgart and Zurich in the south and west. In its 1994 summer timetable, the German Bundesbahn plans to extend the ICE to Vienna.

While the prospects for demand appear healthy, the competition to supply high-speed rail contracts is likely to remain fierce. This is largely the result of the nature of the industry. The market for such networks is comprised of a relatively small number of large projects which come up only every few years and which last for many years. The South Korean contract, for example, is not expected to be completed until 2002.

For GEC-Alsthom and its rivals this time lag makes each contract critical. The experience acquired on one puts the manufacturer in a stronger position for the next. Simithe economies of scale ohtained by winning several contracts allow cheaper pricing in

German industry is still reeling from its setback in what Mr Martinsen calls "the Korea shock". The final decision in favour of the TGV was said to be because the French train had proved itself for more than a decade, whereas the ICE has only been running since 1991 Government support is essential

to win such massive prestige contracts. Mr Martinsen says. "It is a question of lots of money, and long-term co-operation. This is only possible if the polltical will exists."

Yet he admits that in the US market, for example, the successful contractor will be decided on the basis of "technology, price and local con-tent. It won't help us much if Chancellor Kohl goes over there."

at. ce io-le-

Two crucial developments lie ahead. The first is the need to develop multi-system, cross-border trains. If the European links are to become reality, the trains must be able to deal with a bost of electricity voltages, signalling systems, and safety standards on different national rail systems. They must also become decidedly cheaper.

news for the consumer. But for the producers, it whether all can survive. Mr Darmon believes not. "I doubt very much there is room for three high-speed train manufacturers in Europe," be says, referring to GEC-Alsthom, Siemens-AEG, and the Italian high-speed train venture led by Breda, "The investment in R&D and the cost of developing prototypes is too high if you don't win contracts," he edds.

The intensity of competition could encourage collaboration. "We are open to co-operation with anyone, and why not Siemens?" asks Mr Darmon. Such a view is supported by the French and German governments, which last year appointed representatives to examine possible co-operation.

The representatives have e delicate task in accommodating national rivalry. Mr Darmon says co-operation would have to consider the fact that 570 high-speed trains have been manufectured by or ordered from GEC-Alsthom, while the comparable figure for the German consortium is 120. He adds that any partnership between the two groups should he based on cost and efficiency considerations and not national and political splits.

Mr Martinsen seems to be more interested in a link-up with the Italian consortium. "I am convinced we will have two trains in Europe," be says, "There is e big enough market at the momeot. Whether we can keep that for good is another mat-ter. But that is a question for the railway companies, and the politi-

Last lap in South Africa

VESTERDAY'S historic agreement eaves South Africa within reach I CUIT of what once was a dream. Over 300 years of white domination will and when the country's electorate goes to the polls next April, under constitution which enfranchises he black majority.

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44.

It marks the penultimate step in he dismantling of an evil system hat brought pain and humiliation o millions. The ending of minor-TC I ty rule has been made all the nore remarkable by the fact that resident FW de Klerk has had he wisdom and courage to preside ver the dissolution of white inority rule. Equally remarkable

as been the part played by his nain political adversary, Mr Nei-n Mandela, who emerged from ecades in jail calling not for wenge, but for reconciliation. But the last etage of South frica'e transition from apartheid democracy may prove the most azardoue. Chief Mangosuthu utbelezi, leader of the predomi-intly Zulu Inkathe Freedom arty, and the white-led rightwing inservative Party, reject yester-

y's outcome. Even if they can be persuaded to rticipate, the battle for power rough the ballot box will mand unprecedented tolerance e sharply divided society where ore than 12,000 people have eady died in politically inspired plence since Mr Mandela's ease in February 1990. Main-ning law and order will chaluge the integrity of security ces predisposed to white minorrule.

But above all, the coming weeks it pose the first test of the contution. How voters cast their liot - indeed whether some vote all - will be determined as ich by their assessment of the rits of the constitution as by appeal of the parties them-

reful examination lany South Africans are only , taking in what their represen-7es have won or lost at the

itiating table. This calculation require careful examination t constitution whose final e did not emerge until last

many respects, what has been an countries. Proportional Africa on course for democracy. ished is a model for other

any party winning five per cent of the vote will have a seat in the executive. The Bill of Rights accommodates cultural differences while guaranteeing equality under the law. There is also a formula for equitable allocation of state revenue to the provinces.

It is not the winner-take all con-stitution that was the basis for majority rule in the rest of the continent. But some critical issues need clarification, and the outcome could help decide whether inkatha and the white right decide to participate in the poll, or try to

Adequate role

Although the constitution envis ages a government of national unity, it remains to be seen whether minority parties are given an adequate role in the exercise of executive power. And although Mr Mandela's African National Congress (ANC) has shifted from its opposition to provincial assemblies, the extent of the powers they are accorded are either not clearly defined, or subject to being overruled by central

Given these uncertainties, the role of the 11-member court that will arbitrate in constitutional dis-putes is critical. Yet composition of this body will be determined by the post-election majority party, putting the court's independence

in question. If whites' and other minorities' concerns and fears prove well founded, as this complex agreement comes under wider and closer scrutiny, defections from the ruling National Party to Inkatha or the far right Conservative Party will weaken President de Klerk's authority in the demanding months ahead and heighten the prospect of extreme

rightwing violence. If the powers offered provincial assemblies are of little substance, it may be impossible to persuade Chief Buthelezi to participate in the election, raising the frightening prospect of further conflict in his home province of Natal.

Mr de Klerk and Mr Mandela were the architects of the new constitution: they must address these concerns, and reassure the doubters, if they are to keep South

Men still on top

27, of Wigton, Cumbria and Liverpudlian Mr Charles Shlells, 50, have yet to make an impact as the male equivalents of the suffragette Pankhurst family. them a footnote each. After decades in which women have battled to

take jobs traditionally held by men. the roles are being reversed. Last month, Mr Hubner was awarded £2,000 by an industrial tribunal after he failed to get a £90 a week job at a Carlisle factory. The tribunal accepted his complaint that he was rejected because he wanted to take advantage of the

company's subsidised child-minding

scheme, available for women work-

operations at GEC-Alsthom

has a vision of sleek high-speed

trains running at more than 300

kph (212 mph) between many of the world's largest population centres, cutting journey times and curbing

"We are looking at one of the biggest ventures of the next cen-

tury," he says, comparing the new generation of high-speed railways to

the development of international

highways and telecommunications.

ica and the US, the growth of urban

populations, national wealth and rail technology lend weight to his view. But if the potential is great, so is the competition.

Mr Wolfram Martinsen is Mr Dar-

mon's greatest competitor and rival

as chief executive of Siemens Trans-

portation Systems. His group, with Daimler-Benz's subsidiary, AEG,

leads the consortium behind the InterCity Express (ICE) train, which

is seeking to erode the lead enjoyed

in the world market hy GEC-Als-

thom'e Train à Grande Vitesse

(TGV). It is a classic tale of Euro-Mr Martinsen is elightly less san-

guine than Mr Darmon in his assessment of the market. Within

the whole world market for rail-

ways, the high-speed market

accounts for a maximum of 15 per

stakes involved in the industry

rivalry has come from South Korea.

In August, GEC-Alsthom beat off a

furious challenge from Siemens-

AEG to win sole negotiating rights to build a high-speed link between

Seoul and the south-eastern port of

Pusan. Final details of the \$2.4bn

(£1.61bn) contract to supply the

trains and technology are now

Siemens is still protesting at the

decision, as is the Japanese consortium led by Mitsubishi, which man-

ufactures the Shinkansen, or bullet

trains, but their chances of a Kor-

The battle for the Korean con-tract, however, is just one round of

the fight for dominance between the

three principal players in the indus-

try. Already, they are preparing to fight for the next contract. First is a

possible project to link Taipel with

the southern Taiwanese port of

Kaohsiung. Bids are expected to be

Also on the drawing board are plans for high-speed rail links in

Canada, possibly linking Toronto

and Quebec via Ottawa and Mon-

treal; in the US, between Washing-

ton, New York, and Boston, as well

as in Texas (from Houston to Dal-

las), Chicago, California and the north-west; and hetween Sydney

r Alan Hubner, aged

invited towards the end of 1994.

ean change of heart appear slim.

cent," he reckons.

From Europe to Asia, Latin Amer-

In an earlier case, Mr Shiells won £600 compensation after being rejected for e job as e nurse at Tuebrook Tots nursery in Liverpool. The driving force behind men's encroachment into previously female territory is primarily eco-nomic. The official male unemployment rate - almost 14 per cent of tha workforce in September - is more than twice the equivalent female rate,

female job applicants but reports "a noticeable increase in the numbers of men entering the temping market for jobs that women have expected

Mr Hubner and Mr Shiells represent only the tip of a small, but growing, iceberg. The Equal Opportunities Commission says that of the 1.253 complaints it received last year ebont sex discrimination in companies' hiring and recruitment policies, 40 per cent had come from men - e 10 percentage point increase on the previous year.

The EOC also says males are "more stroppy" about complaining. Men are quicker to take advantage of equal opportunities legislation -so much so that, because of lack of funds, we are having to prioritise in women's favour," says the EOC's

At the same time, the recession is forcing changes in corporate behav-iour. A Confederation of British

Mrs Lilian Bennett, chairman of Industry paper earlier this year Manpower UK, the employment noted that high unemployment had agency, says there are no figures reduced the pressure to bring meminto the labour force and to improve their skills.

Though joblessness largely explains the behaviour of companies and individual males, there are

The driving force behind men's encroachment into previously female territory is economic

also some in the equal opportunities field who detect a backlash against positive discrimination for women. According to a Department of Employment official, "positive action is being targeted as unacceptable at a time of the highest male ucemployment since the No company would admit pub-

licly to dropping commitments to

described as an "assisted places scheme" for females in shadow Cabinet elections last month by throwing two women, Ms Harriet Harman and Ms Ann Clwyd, off the front bench team. However, Mr John Smith, the Labour leader, reinstated Ms Harman as shadow Treasury chief secretary. Meanwhile, the EOC has received

party recently provided evidence of

a possible groundswell of male opin-

Labour MPs reacted to what some

complaints from several would-be male Labour MPs about the party's proposed ban on men standing in half the parliamentary seats where the local constituency organisation is looking for a new candidate.

All this is bad news for those trying to improve the position of women in work, as the hurdles they face seem as high as ever. A survey of 179 countries by the Geneva-based International Labour Organisation said that, on current trends, women will take 475 years to achieve equality with men in "managerial" or "decision-making" posltions in all sizes of companies. While men have risen rapidly to

the top of almost every female-dominated profession they have entered, women have no comparable success in traditional male dominated fields

For instance, males make up just 7 per cent of all qualified nurses in Britain, But above the level of senior nurse, men outnumber women, according to the Royal College of Nursing. "Men are more assertive because they are not worrled about getting pregnant and interrupting their careers," says Mr Jamie Fleming, of the RCN.

Similarly, of 35,000 practising midwives in the UK, only 53 are male. But one, Mr Paul Lewis, who qualified in 1979, already has one of the country's top midwifery jobs director of women's services at West London Hospital

Though women may envy male success, there is a case for arguing that they should not gripe about the readiness of men to resort to the law to increase their job chances: the EOC argues that any act that increases ewareness of sex discrimination hy companies can only he beneficial to all in the long run.

Patent nonsense

■ Education secretary John Patten seemed deeply hurt this week when Sir Claus Moser's National Commission on Education published its report without tipping him off in advance about its

This caused e few raised eye brows at the NCE since it had bent over backwards to try to ensure that Patten would be one of the first to get an advance peek. Problem was Patten's officials refused to give out their boss's personal address or phone number. Undeterred, the NCE agreed to

bike an advance copy of the report to the home of Jim Coe, Patten's chief press officer, in leafy Hampshire. Coe is normally formidably efficient, but on this occasion, two days later, he had still not managed to press a copy of the report into his master'e hands. So Patten was completely unable to comment. How inconvenient.

Troops in or out?

■ Lord Healey, who as plain Denis Healey sent British troops into Northern Ireland 25 years ago when defence minister in e Labour government, yesterday delivered a polite-face of impressive stature. Speaking at The Irish Fund of

Great Britain's annual City luncheon, which despite its name was held in Whitehall, Healey revealed that his grandfather had been "a Fenian from Fermanagh". and that he himself was a "great believer in muck and magic."

But despite such e bellicose background, he chose to praise Prime Minister John Major for "opening the door to talks". There really was no practical alternative to talking to terrorists to solve political problems, he said. If only that thought had occurred to him 2% decades ago.

Phony excuse ■ New telephone discourtesies

continue to proliferate: a colleague has just been telephoned by a computer to be told it was putting him on hold, while the person on the other end of the line finished off another call!

Common cause Among all the clamour in

Sweden over the planned Volvo-Renault merger, there has been a deafening silence from the Wallenberg family, the titans of Swedish industry. But at last Peter Wallenberg.

the current doyen of the dynasty, has pronounced - and it is welcome news for Volvo boss Pehr Gyllenhammar, who has long been the most powerful rival to

OBSERVER



'Sod school, let's get some Beaujolais Nonvean' Wallenberg industrial dominance. In a newspaper interview, Wallenberg backed the merger in principle, saying the three-year-old alliance between Volvo and Renault was a "half-cooked egg". His

camp, led by Aktiespararna, the small sharebolders association. Everyone in Sweden remembers the occasion in 1979 when Marcus Wallenberg, Peter's late father, dealt a knock-out blow to Cyllenhammar's grand scheme of the time, to sell 40 per cent of Volvo to the Norwegian government in exchange for North Sea oil concessions.

comments are a considerable

disappointment to the anti-merger

working quietly against the current deal. But in fact any other public stance would have been strange, given that the Wallenbergs sold 50 per cent and management control of Saah cars to General Motors a few years ago.

Peter Wallenberg's comments

should dispel rumours that he was

Clear enough

As South Africa's leaders put the finishing touches to the interim constitution, would-be designers of e new national flag have been flooding the multi-party negotiating council – in charge of picking a fitting post-apartheid emblem with their ideas.

Bombarded by some 70,000 submissions from the public, the council whittled them down to six and then discarded those, calling in ad agencies (including Saatchi & Saatchi and Ogilvy & Mather) for a rethink. But Observer just can't understand why the powers that be did not go ahead with an early entry; a see-through piece of plastic, depicting transparency in government.

Common touch

■ If a number of their Lordships are looking a little green at today's state opening of parliament, do not adjust your set.

The explanation is that they have probably been enjoying the latest

vintage to be introduced to the House of Lords cellars specially for the occasion - a lively little English Vin Nouveau from that well-known negociant, the Co-operative Wholesale Society.

Scaled down

■ Has samizdat spread West? Coincident with lengthening shadows over press freedom in the UK comes the launch of a monthly current affairs magazine. The New Reporter will be published over the desk top by Lizard Press in Cornwall and edited by busband and wife duo, ex-FT features editor John Bourne and ex-Guardian journalist Jean Stead. But the seat-of-the-pants nature of the operation seems to be underlined by Stead's admission that, presently, the money only stretches for the first six months. Hardly surprising seeing the cover charge for the 20-page mag is just one quid.

Spooked

Observer obviously got it wrong yesterday, as a much simpler explanation now emerges for why the ghost of John Julius Angerstein, the father of Lloyd's, might be found hovering around Coutts's branch in the Lloyd's insurance building. Naturally he has been investigating a phantom cash-point withdrawal spotted on his bank statement.

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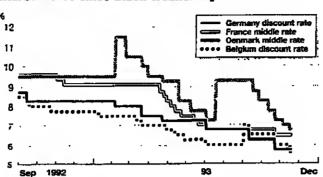
ter. con

THE BELGIAN government agreed early yesterday to a wideranging austerity plan, prompting a reduction in two leading interest rates and a euphoric reaction in the country's finan-

After 16 bours of talks, ministers backed a three-point package which imposes curhs on social spending and limits wage increases to the rate of the inflation until the end of 1996. The pact also contains new measures to tackle rising unemployment, particularly among young people. The Belgian Netional Bank responded by cutting the discount rate from 6 per cent to S.S. per cent, while reducing the money market rate from 9.4 per cent to 8.3 per cent. The Belgian franc strengthened against the D-Mark to close at BFr21.25 on hopes the rate cut would help

tevive the economy. Mr Jean-Luc Dehaene, prime minister, hailed the agreement as good for Belgium and for Europe. The plan draws some inspiration from the forthcoming European Commission white paper on competitiveness, growth and employment which will be the centrepiece of next month's EU summit

Interest rates since Black Wednesday



old, reducing to 7S per cent and in Brussels, to he chaired by the 50 per cent exemptions in the sec-Belgian presidency. Among the social pact's chief ond and third years. It also propoints are a planned reduction of

around BFr75bn (\$2.1bn) in spending on health care, family allowances and pensions. The most sensitive proposal is to reduce family allowances in relation to family income, starting at a threshold of BFr750,000 a year. In order to promote job creation, the government proposes to reduce sharply the costs of hiring labour. Businesses will he fully exempt from paying social costs in the first year when

poses job-sharing to increase the number of people in work. To raise revenue, the gover ment plans to raise the level of withholding tax on Interest income from 10.3 per cent to 13.39

25 per cent to 13.4 per cent. The fate of the package will depend partly on whether Mr Dehaene's fragile centre-left coalition can win support among opposition parties and blunt

per cent. The level of withholding

tax on dividends is to be cut from

lic sector trade unions. Rolling strikes were held in Belgium this week in protest against the pact.

Initial reaction among potential opponents was guarded. The Socialist party declared it had helped to make the austerity plan more equitable, but said it would remain vigilant on the application of the planned measures.

The Belgian economy is expected to shrink by 1.5 per cent this year. Belgium has the highest public deht in the EU as a propor-

tion of gross domestic product.

The level of indehtedness has unnerved financial markets, and damaged confidence in Belgium's claims to be part of a currency club huilt around the D-Mark. particulerly after the near col-lapse of the exchange rate mechanism in August, which followed sterling's exit from the ERM on so-called Black Wednesday in September last year.

Belgian government honds climbed nearly a point after the cut in interest rates. The Bel-20 index of leading shares jumped 21.8 to close at 1,397, despite earlier concerns that the new taxes might undermine the positive impact of lower interest rates.

> Currencies, Section II World stocks, Section II

Passions flare as Nafta vote nears

employing people under 26 years

Continued from Page 1

would he "academic", said Mr Bill Daley, the White House's Nafta co-ordinator.

An Associated Press count early in the afternoon suggested that the agreement had secured support from at least four more members than the 218 needed for passage. A more conservative tally from the House whip's office put it four votes short, but with the probability of picking up the difference.

Significantly, Congresswoman Marcy Kaptur, the Democrat from Ohio and a leading Nafta opponent, conceded that she thought Mr Clinton would carry the day, mostly, she added with scorn, on the hack of support from the Republican party.

The president went running in

a pro-Nafta T-shirt and said "it's never in the bag until the vote's ln". He had despatched officials hy the dozen lo Capitol Hill to keep up the pressure, as had the

Lord Caithness, the UK aviation

minister, described the US deci-

sion as a "provocative act quite

contrary to our agreement with

He added the UK government felt the move would prejudice BA

because airlines cannot plan on a

The UK is not taking immedi-

ate action, but has given notice it

will withdraw permission for one

flight a week each by American

Europe today

over the Black Sea.

A wide and stallonary high pressure system over north-west Russia and the Baltic states will gain more strength over the next few

days. It will continue to dominate conditions over continental Europe and much of Russie by bringing calm and wintry weather to most areas. Sunny perious will extend from southern Scandinavia to Spain. Gloudy conditions are expected over central Europe. A few flurries are likely over Poland and sleet

There will be showers in the central and eastern regions of the Mediternanean and an increased risk of thunder in the south of Italy. Frontal disturbances over the Atlantic will

The Russian high will continue to build and

expand slightly towards Scandinavia. There

will be an extensive easterly flow of air across

Cloudy intervals are expected over central and eastern Europe with the likelihood of snow

Europe which will result in the movement of

later on. Temperatures will drop over the UK

as well, as the wintry air mass arrives during

affect western regions of the British

Five-day forecast

even colder air from the east.

TODAY'S TEMPERATURES

Continued from Page 1

the Texas populist, was behaving exactly like the lohhyists he constantly condemns as he toured the balls exborting members to vote against.

On the House floor itself, the early part of the scheduled eight bour debate beard complaint after complaint that Mr Clinton had tried to buy a triumph by giving away the store. "Its Nafta Claus time at the White House," said Mr David Bonior, the Michigan Democrat and leading anti-Nafta strategist.

"Its \$50bn in goodles and giveaways," shouted Mr Gerald Solomon, the New York Republican, citing favours be said had heen given to the makers of manhole covers in Louisiana and aircraft manufacturers in Callfornia. Nafta, be charged, established an "unelected, unaccountable hureaucracy" that would undermine the US constitution.

Britain threatens US flights to Heathrow

Airlines and United Airlines from Heathrow to Chicago and Wash-

ington respectively from 12 Janu-

ary - the date BA's code sharing

approval expires, unless renewed

threatened to block flights by US

carriers in London, but Lord

Calthness said the government

to liberalisation, hut the "open

skies" negotiations with the US

were a separate issue with the

He said the UK was committed

It is the first time the UK has

by the US before then.

felt it had no option.

anti-Nafta forces. Mr Ross Perot. old, one party dictatorsbip" of a government, was too much for Kika de la Garza, the Democrat from Texas who rules the House agriculture committee.

"I share blood with the Mexican people," he barked back. "and I resent the xenophobia I've been hearing on this floor." Reaching back into the last century, be turned on Mr Solomon and others who had spoken in the same vein. "They want a Mexican government run by the US, hut let me remind you, we tried that and it didn't work."

Perhaps unconsciously, George Miller, the California Democrat, evoked memories of former Brit-Ish prime minister Harold Macmillan's words condemning the Thatcher government's attitudes to the British miners "wbo had helped defeat the Nazls". The American worker, Mr Miller declared, "bad belped win the But his assault on everything cold war and now are not even Mexican, especially its "64-yearbeing given an afterthought".

Washington had so far given

no explanation for its action.

except to state that the decision

was linked to the current hilat-

eral talks with the UK over a new

Washington bas come under

heavy pressure from the hig

three US carriers - American,

United and Delta - for allowing

BA to form an equity partnership

with USAir. The US carriers have

also sought more access into

aviation agreement.

Heathrow. FT WORLD WEATHER

£1m London fund to beat

By Jimmy Burns in London

LONDON-based financial institutions have contributed to a £1m (\$1.49m) fund to reward those who give the police information on attacks by the Irisb Republican Army on economic

The identity of the fund's main sponsors is being kept secret but the National Westminster Bank, chose City of London office was badly damaged in a bomb attack in April, said it strongly backed the initiative.

The Bank said: "This is an important additional mechanism that will help pursue those responsible for terrorist attacks. Scotland Yard said the initia-

tive had been developed by antiterrorist officers and managers of UK-hased companies. The money comes from dozens

and will be administered by joint agreement between the police and the main sponsors.

It is not clear yet whether the full sum will he held in an escrow account or remain the responsibility of the companies until It is needed. Scotland Yard said last night:

"Our experience is that we do not have to provide financial inducement to get useful information on terrorist activities. But if there is a slightest chance that an individual might be tipped over by a reward, then we should take it."

The initiative was prompted by the commercial costs of recent IRA attacks

IRA bombs

markets were beginning to accept that the chancellor's room for manoeuvre on interest rates was limited. In the light of yesterday's retail prices index, they may have to think again. October's small rise in clothing prices and an actual drop in household goods prices, as well as cuts on food, reveal little immediate inflationary pressure. into one month's set of figures, but the starting point for the inflationary blip forecast hy the Bank of England now THE LEX COLUMN

Courtaulds catches cold

The message from chemicals companies gets bleaker by the day. Like BOG on Tuesday, Courtaulds sees no sign of an upturn. In addition to the cyclical pain, it is suffering renewed pricing pressure in some of its most profitable markets. The proximate cause is the credit squeeze instigated by the Chinese government, which has led to surplus capacity worldwide in products ranging from viscose fibre to cigarette tow. Yet it is a measure of the fragile balance that such incidents are destabilising. While consumption in developed markets remains stagnant - and price rises are elusive chemicals companies will be vulnera-

hle to nasty shocks. How long the China syndrome will last is unclear. On a rosy view, the credit squeeze will prove a hiccup in an otherwise uninterrupted pattern of growth. China has resumed huying acrylic fibres in recent weeks. The worry is that low-cost Asian producers which switched output into profitable markets such as US viscose will be loath to retreat even when China returns. Courtaulds would then have to live with lower margins. Exciting long-term prospects such as Tencel -Courtaulds' new fibre - cannot deliver

earnings growth unsupported.
Whatever the eventual ontcome, Courtaulds faces a tough year, The company continues to squeeze the most out of its existing husiness. The proposed joint venture with Hoechst in fibres should bring another slug of turnover for Courtaulds' management to get to grips with. The hope must be that another round of provisioning will carry it through 1994, by which time cyclical recovery may at last be within reach. Yesterday's 9 per cent fall in the shares suggests the stock market is unwilling to look that far

UK economy

After last week's somewhat disappointing news on wholesale price inflation and consumer credit, UK There is a danger in reading too much

FT-SE Index: 3120.0 (+22.5) Share price relative to the FT-A All-Share Index

looks lower than previously expected. It also appears that, at least in the domestic market, consumers price nies from pushing up margins much. This background will make it much harder for Mr Clarke to resist pressure

to follow continental European interest rates lower, especially if sterling continues to rise against the D-Mark Fierce price competition among super-markets should also damp inflationary expectations. In theory Mr Clarke could cut rates even if he announced minimal tax increases in the Budget. Since there is little prospect of the PSBR significantly undershooting the treasury's £50bn forecast, he has in practice an even better opportunity to tackle the deficit as well.

Land Securities

Having basked in glory throughout recession thanks to its defensive virtues, Land Securities has seen its halo dlm as the property sector has revived. Although its shares have shot up from 355p to 734p since sterling's ejection from the Exchange Rate Mechanism, Land has still underperformed the sector hy 12 per cent. Its weighting of the quoted property sector has dropped from 35 per cent of the total to 27 per cent over that time.

Nevertheless, Land should not be ignored altogether until the next recession looms. Its great rent collecting machine keeps rolling and its balance sheet strength makes it one of the precious few property compenies capable of sustaining aprogressive div- has suffered a heavy blow. Yet given idend policy. Moreover, while property. Mr Simpson's talent for promoting shares remain so far ahead of underly good people to support him, it should ing market fundamentals, Land will be able to make good the loss.

continue to provide a relatively safe haven against economic setbacks. The company, however, remains cautions about prospects. Recovery is fragile with occupational market rents con tinning to fall in central London.

But Land will have to step up its acquisition programme if its shares are not to be left behind when recovery grips. It was a pity, therefore, that was unable to commit more than £70m in the first half when the opportunities appeared greatest. The flood of institutional investors into property has now damped yields, making it di ficult to buy on good terms. Neverthe ss, Land's expertise may yet enable it to unearth some nuggets and it can easily gear up to spend £500m. The scale of spending may be required though, if Land is quickly to re-ignite

Lucas Industries

After an agonisingly long wait, Lucas has finally got its man. It is more than a year since the company renewed its search for a chief execu tive to replace the retiring Sir Anthony Gill, and two years since the quest originally started. As a new leader for Lucas Mr George Simpson is a near-perfect candidate. His experi ence in helping to transform Rover will be invaluable, as will his success industry connections with British Aerespace, so it is a pity that Lucas did not find him earlier. The delay will have done little to boost morale and in that context, it is unfortunate that BAe now wishes to hang on to him

Still, however belatedly, Mr Shop is just the man to take the difficult decisions which Lucas faces. The company will have to excume how many expensive development projects it can afferd to fund. Its applied technology division may need further rationalis tion. Most importantly, he will need to ment team to turn the company roun in much the same way that he did at

All of that should underpin Lucas's nascent recovery. Unfortunately for the incoming chief executive, the comnemy's share price already discounts most of probable earnings gains over the next two years. He may thus have to wait for his efforts to be reflected in the stock market. BAe, meanwhile,

RESEARCH IN-DEPTH depends on teamwork. Simple enough in theory, perhaps, but . practice is quite another matter.



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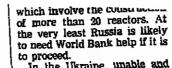
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and western nuclear sure Mr Remy Carle, chairman of the WANO governing board and deputy general manager of

economy, supplies or or fuels and other factors over which the nuclear industry has little control.

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Nutricia

recall will

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Hewlett-Packard disappoints

Hewlett-Packard, the US electronics and computer systems company, reported strong growth in sales and earnings for its fourth quarter. But its shares fell on fears of increased costs and stocks. Page 19

New head at Lucas

Lucas Industries, the UK automotive and aerospace components group, confirmed its chief executive would be Mr George Simpson, deputy chief executive of British Aerospace and chairman of Rover Group, BAe's vehicles subsidiary. Page 18

Future of Merrett in doubt The future of the Merrett Group, one of the largest agencies at the Lloyd's of London insurance market, was in question last night after the breakdown of a US plan to provide new backing for the group.

Missile talks take off French missile-makers' international negotiations are gathering pace. They will be crucial to any international industry reorganisation. Page 18

JR East slips East Japan Railway made its first earnings announcement since its listing on the Tokyo stock exchange last month. The semi-privatised regional railway group said the economic siump led to a marginal fall in interim pre-tax profits.

Cock of the roost Boston Chicken, a fledgling fast-food chain, became the new darling of Wall Street last week, It launched the most successful initial public offering in two years. Page 22

Commercial Union soars to £144m



Commercial Union, the largest composite insurer. creased pre-tax profits to £144.2m for the first nine months against £6.1m for the same period of last year. The shares rose 10p to close at 606p. "The substantial improvement in general insurance trading, especially in the UK, continued in the third quarter and life

profits again made a signifi-cant contribution, "said Mr Tony Brend (left), chief executive. Page 24 Land Securities edges ahead Land Securities, the UK's biggest property com-pany, lifted its interim dividend. Page 25

Vosper lessens warship dependency Vosper Thornycroft Holdings, the UK shipbuilding and engineering group, is to lessen dependency

on warship orders. Page 26 Barton Biggs cuts HK rating London beard that Mr Barton Biggs, the Morgan Stanley strategist, had moderated his support for Hong Kong, by cutting its weighting in his global model portfolio. London SE, Page 35, World

A dangerous future A quarter of plants and animals are in danger of extinction in the next 30 years. Page 28

stock markets, Back Page

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Chief price changes yesterday

NEW YORK (I) Prises
Baser Hughes 23% + 1%
Falls
Albert Fisher 62 - 4
1st itst Fish 64 - 4
V. Takeren 57% - 4% Frankfurt closed. New York prices at 12:30.

Cable & Wire Micro Focus RPS Group

By Nicholas Denton in Budapast

Hungary's largest commercial bank, yesterday revealed a capi-tal shortfall that dwarfed earlier estimates and said it was discussing a Ft50-60bn (\$500m-\$600m) government bail-out.

The capital injection and deter-iorating capital ratio figure was revealed by Mr Istvan Torocskei, managing director of state-owned Hitel Bank, in a newspaper interview before today's expected cab-

tion of Hungary's troubled bank-

The authorities propose to restore the capital adequacy ratios - the ratio of capital to risk-weighted assets - of the main banks to zero for this year's international accounts and to 4 per cent next spring. The stan-dard set by the Bank for international Settlements is 8 per cent. Mr Torocskei's estimate means Hitel Bank has a negative capital adequacy ratio of at least 16 per

fifth of the bank's estimated risk weighted assets of Ft240bn. The latest estimate of Hitel Bank's capital deficiency - the

That report said most of Hungary's banks were "technically insolvent", according to interna-

depositors exceed its assets - is double the 7.9 per cent projected for 1993 in a World Bank aidememoire on Hungary's banking

tional accounting standards. Hungarian officials and bank-

lapse, however. "Hitel Bank's dard loans earlier accounted for. liquidity has never open as good as now," Mr Torocskei stressed. Mr imre Tarafas, a deputy chairman at the National Bank of Hungary, cautioned that banks were exaggerating their loan

losses in order to qualify for larger government injections. There bas been a substantial deterioration in the apparent position of the major banks, which officials blame largely on the recognition of had equity investments and contingent fiabilities, as well as the substanThe government's planned recapitalisation of the sector is now likely to cost more than the Ft100bn estimated by the World Bank earlier this year.

The capital strength of Hitel Bank, Kereskedelmi Bank and Budapest Bank, the three large state-owned commercial banks, deteriorated after Hungary implemented a new bankruptcy law at the start of 1992 in the middle of deep recession.

About one in six companies has been hit by the legislation.

cut profits By Ronald van de Krol in

SHARES in Nutricia, one of Europe's largest producers of haby food, fell sharply yesterday after a warning from the com-pany that a recall of 1m jars of haby food would affect its profit forecast for 1993 and could influence results in 1994.

Nutricia, a Dutch-based com-pany which is 30 per cent-owned by Unigate of the UK, is recalling some lines of its Olvarit brand of baby food because jars containing pork and beef may bave traces of a disinfectant. The recall affects jars in the Netherlands, Belgium, Greece and Portugal.

More than 1m jars beld in Nutricia's warehouses will also he

destroyed. Nutricia's sbares feli steeply the Amsterdam Stock Exchange yesterday, closing down Fl 13.20 (\$6.95), or 8.7 per cent, at Fl 138.20. In London, Unigate's sbares ended the day

down 12p at 355p, Nutricia, the biggest European baby food producer after Nestlé of Switzerland, said the source of the disinfectant was not its Olvarit factory in Wells, England, but one of its Dutch suppliers of pork and beef. The disinfectant, p-TSA, is used to clean meat-cutting tables and equipment.

The Olvarit jars were recailed after traces of disinfectant were found during a routine check in the Netherlands by food inspec-tors. Other Oivarit products which contain either no meat or included in the recall.

The company said there was no danger to bealth unless consumption of the food took place frequently and over a long period. It noted this is not the normal feeding pattern for

Nutricia was unable to estimate the cost of the recail, but a spokesman said the likely cost would be "large". The recali would affect its profit forecast for 1993, which had been of a ar" increase from profit of Fl 87.2m. The recall may also influence results next year.

Meals, drinks and cereals for babies and toddlers accounted for around 16 per cent of Nut-About one-third of total turnover is generated by infant formula. Other products include speci-alised dietary foods for the elderly, atbletes and people with

Hungarian bank in bail-out talks savs food

MAGYAR HITEL Bank,

By Christopher Brown-Humes in Stockholm

ELECTROLUX, the largest

European white goods manufac-turer, has swung into a SKr198m

(£16.5m) profit in the third quar-

ter after financial items, from a

SKr22m loss a year earlier. The better-than-expected per-

formance lifted the group's

shares SKr18, or 6.3 per cent, to

SKr305 yesterday. It took profits

cent. Tha Ft50bn-Ft60bn of extra capital he is seeking represents a

SKr961m, a rise of 31 per cent.

Sales for the third quarter climbed 35.5 per cent to SKr24.6hn while operating

Income increased to SKr646m

from SKr370m.
The figures reflected the bene-

fits of a weaker krona, restruct-

uring, and the development of

new product ranges and showed

problems in the North American

and Spanish markets, which cost

SKr500m during the first six

amount by which its liabilities to

system written earlier this year.

ers rule out a major bank col-

performance reflected strong

growth in operating income in outdoor products and industrial

products. The outdoor business,

which saw sales climh 66.6 per cent to SKr2.55bn, bas been a

major beneficiary of krona weak-

ness with its strong orientation

The picture within domestic appliances, the group's higgest

division, was mixed, even though

sales rose 32.1 per cent to

Countdown to flotation

towards the US.

Weak krona aids Electrolux recovery Analysts said the third quarter performance reflected strong increase in operating income in the group's US white goods arion and a bottoming out of the sharp downturn in the Nordic and Spanish markets.

> many after growing throughout the first half, and Italy was one of a number of other countries to show weaker growth.

OLTRE I BOT, I CREDIT.

However demand fell in Ger-

Currency factors helped group sales rise 26 per cent in the first nine months to SKr74.2bn, as vol-

Mr Staffan Ostlin, financial

analyst at Carnegie in Stockholm, said: "Electrolux is through the worst hut it is still iooking at a tough market in Europe in 1994. European appliance sales could fall by I per cent next year." Carnegie expects full-year profits of about SKr1.4bn, compared with SKrlbn. World Stock Markets, Back Page

Italians are lured towards the big sell-off

for the first nine months to months, were largely over.

Haig Simonian reports on the launch of a long-awaited privatisation drive

face of privatisation will ba a former Miss USA, pany is restructured. wearing a double-breasted suit

The lady from Credito Italiano, the state-controlled bank kicking off Italy's first big sell-off, may become as familiar as the "Sld"

Tomorrow sees the start of tha international roadshow for Credito Italiano, Italy's sixth biggest bank. Two weeks later, the shares will be priced, with placing begining on December 6.

The L10bn (\$6m) advertising budget - directed through the press rather than television highlights the scale of the task. Italy is going through unusually acute political convulsions, even by its standards, because of the corruption scandal and the prospect of elections next year.

Meanwhile, the earnings outlook for banks is extremely gloomy because of recession. Cre-dito Italiano is heavily exposed through its traditional emphasis on lending to big companies - it is one of the five biggest lenders to the deeply indebted Ferruzzi

The advertising campaign must also raise public awareness of other privatisations in Credito Italiano's wake. In February 1994, the treasury plans to float up to 30 per cent of the financial services group, istituto Mobiliare Italiano. Soon after, Iri, the state holding company which is selling the 67 per cent Credito Italiano stake, will dispose of its 57 per cent interest in Banca Commerciale Italiana, another big bank.

By the end of next year, flota-tions should be concluded of the Ina insurance group and the Enel alectricity generating authority. In 1995 Stet, Italy's state telecommunications group, is to be fully privatised after a long-awaited reorganisation. Later investors

or millions of Italians, tha lucrative oil and gas activities, after the Eni state bolding com-

It is not clear bow much Italy's treasury, struggling to bring down one of the world's biggest budget deficits, will make from the sell-offs. Officials are wary of issuing forecasts, and next year's income.

about L2,000bn. Receipts from IMI depend on how much is sold. Mr Piero Barucci, the treasury minister, said this week it would be 25-30 per cent. That is twice as much as first forecast and implies proceeds of about

Estimating the income from BCI is much more difficult, as it depends on whether the govern-ment will accept the creation of a "hard core" of institutional investors, grouped around Mediohanca, the Milanese merchant bank. Depending on the premium for control, analysts reckon Iri's shares could be worth about

uch of the work during his government's term of office was technical. with a shoal of essential, but often undramatic, legal steps needed to change the public entities into joint stock companies and cut a swathe through layers of party placemen on many of the public sector boards.

may get a first taste of the state's state industries. Ideologically.

Credito Italiano should net

Next month's start to privatisation ends a long and tortuous process begun in summer 1992. when prime minister Mr Giuliano

Amato started clearing the way for asset sales.

Among the obstacles to be overcome were ingrained party political patronage and MPs' fear of plant closures in their constituencies. Trade unions were far from supportive in view of likely

Size of stake*/ Lead managers 25-35% L1,590bn **CSFB** IMI, SG Warburg Early Feb 1994 JP Morger BCI, Lehman Brothers . Mtd April 1994 57% 12,400000 IMI. BCI, Credito Italiano, Early June 1994 Kleinwort Benson NA 1994-95

aground because of a ministerial

wrangle about the fiscal conse-

stress being placed on preparing more.

to stimulate private equity pur- the market, with daily full-page

chases using tax breaks have run advertisements featuring Credito

Such setbacks explain the investors to expect a thousand

privatisation was no certain vote

But public acceptance for selloffs, pushed ahead by the present government of Mr Carlo Azeglio Clampl, was undoubtediy reinforced by the groundswell of support for change provoked by the corruption scandal.

Privatisation has now reached "the point of no return", according to Mr Barucci. Whoever comes to power after next year's elections will be unable to stop the bandwagon.

But ministers are still crossing their fingers that the first deal goes well. The Milan bourse remains thin by the standards of London or Frankfurt, aithough turnover has surged this year because of new laws forcing banks to deal on the bourse and introducing computerised screen-based trading.

But while daily volumes have risen almost tenfold from the lows of summer 1992. Milan often remains dependent on fickle for eign investors. Attempts to boost domestic investment in equities through new legislation bave so far had little effect. A longawaited law to create private pension funds, which could revolutionise institutional share huying, bas so far failed to produce a single taker. Mr Barucci admitted the legislation would have to he

redrawn. Measures put forward in 1992

BUYING THE COMPANY

Italiano's smiling lady. Her face

will not only launch a deal, it

should also condition Italian

IS A MAD IDEA.

IT'LL NEVER WORK.

CALL US.

China squeeze hits Courtaulds

By Paul Abrahems in London

COURTAULDS, the chemicals and fibres group, yesterday warned that the Chinese credit squeeze had hit sales of three of its most important husinesses. The company explained that European and US prices had been affected by Aslan production being diverted from the slowing Chinese market. The shares fell

Pre-tax profits rose 9 per cent in the six months to September 30, to £96.4m (\$143m), helped by a £24.4m nat gain on disposals. Operating profits fell from £92.5m to £86.4m on turnover of £991.7m,

The results were flattered by

currency changes. At constant

exchange rates, turnover and

respectively. Courtaulds warned it would make a restructuring provision of £35m-£45m for its north American and European coating operations. Capital spending would also be consider-ably higher in the second half.

Mr Sipko Huismans, chief executive, said the anti-inflation drive in China had serious knock-on effects. "Production of acrylics and acetate tow that were previously going to China have been diverted to Europe, aithough some Chinese acrylic huying has lifted prices a bit." Surplus viscose from China bad started reaching the US and would adversely affect second-half sales.

Mr Huismans said he was not

overwhelmed by the recovery in

Mr Huismans said sales of Tencel, its innovative fibre, were constrained by capacity. The board announced it would invest \$134m (590m) in a new 30,000-tonnes-a -year plant in Alabama. Another plant would be built at Kelheim in Germany or Grimsby in the

Net borrowings were down from £300m last September to £183m. Net interest, bowever. was up from £5.2m to £15.4m. partly due to a lower pension fund credit and less return on sterling deposits. There was a net cash inflow of

£35.9m compared with an outflow for the same period last year of £66,5m. Earnings per share rose from 18.1p to 19.5p. The dividend

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was increased from 3.5p per share Lex, Page 16; London SE, Page 35

operating profits would have need confidence to sanction capi-been £48m and £5.8m lower tal projects."

the US economy. "Consumer confidence has returned ... but you

NB POWER

Merrett Group fails to secure Travelers' backing

By Richard Lapper in London THE future of the Merrett Group, one of the largest agencies at the Lloyd's of London insurance market, was in question last night after the hreakdown of a US plan to provide

new backing for the group. Merrett said that Travelers, the US insurance company, had withdrawn a scheme to underwrite husiness alongside syndicates managed by Merrett on a so-called consortium

Travelers, recently taken over by Primerica, the financial services group, would have hought a large stake in the Merrett managing agency, in a deal which would have helped offset a sharp decline in support for Merrett syndicates from Names - the individuals whose assets have backed the

Lloyd's market. Travelers refused to comment last night. Merrett is seeking the hacking of other Lloyd's agents, hut it is is understood that talks earlier this week between Merrett and AJ Archer Holdings

have heen unsuccessful. The affair completes an unhappy year for Mr Stephen Merrett, a powerful underwriter and chairman of the Merrett Group. He resigned as deputy chairman of the market following pressure from Names and their agents in August.

Executives of Primerica are

said to have viewed the Mer-

rett deal as an unnecessary complication at a time when their plans to take over Travelers were incomplete. Mr Bob Clements, president

of Marsh & McLennan Companies, which owns the world's largest broker, which helped

yesterday reaffirmed support for the group, describing criticism of Mr Merrett as "personalised and without regard to underlying fundamentals".

A Bermuda-based company, set up this year hy Marsh and JP Morgan, to provide reinsurance for Merrett syndicates

would continue to operate. However, Marsh, and JP Morgan, would not be taking stakes in the Merrett agency, a move they had agreed as part of the Travelers plan. "There is no point in us taking a stake except in so far as that was a catalyst to attract other capi-

tal," said Mr Clements. Merrett will seek support from members' agents, which handle the affairs of Names. But agents were downheat about group prospects after

SE Banken cuts losses further

By Christopher Brown-Humes

THE recovery in the Swedish banking sector was underlined yesterday when Skandinaviska Enskilda Bankeo, the leading commercial bank, announced

sharply reduced losses for the first nine months. The hank's operating loss fell to SKr92m (S11.2m) from SKr3.75bn as it beoefited from increased revenues, cost-

cutting and reduced loan The third-quarter profit of SKr200m built oo the SKr310m second-quarter surplus, but

By Christopher Brown-Humes

SANDVIK, the Swedish

engineering group, improved

profits by 23 per cent to

SKri.44bn (8175m) in the first

nine months. The advance

came without any upturn in

buted mainly to the weak

Swedish krona, which enabled

The revival has been attri-

husiness conditions.

losses of SKr608m in the first three months. The healthier trend underscored the bank's decision to withdraw its request for state ald in August and rely instead on a SKr5.3bn rights issue to rebuild its capi-

tal base. Operating profits before credil losses rose 64 per cent to SKr7.63bn, showing successive improvements in every quarter. Lower interest rates positively influenced the performance, as did SKr560m in gains from bond sales, Costs were reduced by 2 per cent to

SKr5,69bn, partly due to staff

Europe and Japan, but the out-

look was more positive in

He highlighted Latin Amer-

ica. Australia. Chlna and

other parts of the world.

tions are excluded.

down 8 per cent compared with last year. The bank said 44 per cent of write-offs related to the real estate sector, where collapsing values did more than anything to provoke the crisis in the Swedish financial sector. Net problem loans at Sep-

lember 30 were SKr21.5bn. down 17 per cent from the total at the end of last year. SE Banken also announced it had sold its remaining shares in Skandia, rounding off a saga that began in 1990 when it tried to forge a giant Scandinavian hanking and Insurance combine hy huying a 28 per

Credit losses at SKr7.72bn cent stake in the insurer,

Krona's weakness helps Sandvik

SKr16.5bn. Sales fell 5 per cent if currency factors and acquisi-The higgest expansion of sales came in North America, Mr Per-Olof Eriksson, chief with 56 per cent growth to executive, sald demand remained "very weak" in SKr3.18hn, followed by Latin

America, where sales climbed 43 per cent to SKr997m. Steel was the group's top performing division, due to a four-fold rise in profits, to SKr354m from SKr89m, This was achieved desplte failing

Rover chief is picked to head Lucas **Industries**

By Andrew Bolger in London

LUCAS Industries, the UK automotive and aerospace components group, yesterday finally confirmed that its next chief executive would be Mr George Simpson, currently deputy chief executive of British Aerospace and chairman of Rover Group, BAe's vehicles

The Midiands-hased group has been trying for months to secure the services of Mr Simpson, 51, who is given much of the credit for the revival in Rover's fortunes. His appointment will go a long way to allaying City concerns over Lucas's protracted man-agement succession.

Lucas declined to give details of Mr Simpson's salary. but dismissed rumours that he bad been offered fim a year and a £3m (\$4.47m) bonus. There was some snrprise

that Mr Simpson will not be joming Lucas until May 1 and that Sir Anthony Gill, chairman and chief executive since 1987, will continue as non-executive chairman. However, it is expected that Sir Anthony, 63, will only stay on for as long as it takes to choose a new chairman, with Mr Simp-

son's full involvement. Mr Simpson said: "I am delighted to be joining the successful Lucas team and to be taking over its leadership from Tony Gill. My experience at Rover and British Aerospace tells me that there are few more competitive husiness sectors than antomotive and aerospace and I fully under-

stand the magnitude of my new challenge." Last year Sir Anthony was asked to postpone his retirement until the snecession was

Lucas was cited as a possible takeover target after recession caused profits to slump and its shares touched a five-year low of 78p in September last year. They have since recovered to 177p as the group has cut thousands of johs and sold several husinesses. The restructuring helped pre-tax profits donble to £50.3m this year. Rover analysis, Page 24; See

France sharpens missile strategy

David Buchan examines global reorganisation of the defence industry

rench missile-makers' international negotiatlons are gathering pace. Matra is pledged to form a joint missile company with British Aerospace (BAe) hy the end of the year. Aérospatiale is locked into similar discussions with Deutsche Aerospace (Dasa) with a view to merging their missile interests into a single unit with a market

share rivalling Hughes of the The role of the French missile companies will be crucial to any industry reorganisation. For one thing, there are more of them than in any other Buropean country. In addition to Matra and Aérospatiale, there is Thomson-CSF, the heavyweight of French defence electronics, and a host of smaller electronic suppliers.

defence equipment hudget by less than other European countries in the last three years, and plans to increase it slightly next year, to FFr103bn The French defence sector's total turnover has declined from its high point of

last year, largely due to the drop in export deliveries, to New orders, however, hit a record FFr45.7bn last year, with Taiwan's decision to buy Dassault's Mirage jets and Matra's missiles, and Abu Dhabi's

purchase of the Lecierc tank

FFr124.5bo in 1990 to FFr113bn

made by France's state-con-

trolled Giat Industries. A recent parliamentary report forecast that 40,000 jobs would disappear from the defence and aerospace sectors, but that the precipitous fall-off in civil aviation business and space research was mostly to blame for this.

Mr Hanri Conze, procure ment chief in the French defence ministry, believes the current merger talks among missile-makers may set in train a wider reorganisation in defence electronics. Mr Conze, who runs

ment hudget, predicts that "1994 will be the year of merg-ers and concentrations in the European missile industry". he most advanced of the talks is the planned joint venture between France has also cut its Matra and BAe, whose missile

> confirmed that the marriage was likely to be consummated hy the end of this year. Formal control will be split evenly between the two parent companies. However, Matra is confident of gaining management control because, even without its Taiwan order, its

products and markets comple-ment each other. Mr Dick

Evans, BAe chairman, recently

dowry of missile orders is larger than BAe's. Aérospatiale acknowledges that its talks on merging its

that the two companies took

more than two years to negotiate their Eurocopter joint venture. However, the two companies have aiready worked together for 20 years in their joint Euromissile arrangement. In any event, the German orientation of Aérospatiale should do the company no

proposed setting up a Franco-German arms agency as the possible precursor of the European arms agency, foreshad-owed in the Maastricht treaty. Might these two joint entitles then merge to form one big Europe's biggest defence equip-European missile-maker? Matra, BAe, even some people

harm with Mr Conze, who has

this stage. So is its owner, the French government "It is not impossible," says Mr Conze, "though at present it is impossible to say whether the two joint ventures would stay apart, or come together, or have some gentleman's agreement to share markets or

at Dasa, favour that. Aérospa-

tiale says it is open-minded at

products." However, he believes that the imminent mergers in the actual manufacture of missiles could lead to changed relationships in other perts of the mis-

sile business. These include "upstream" designers of entire weapons ystems, such as Thomson and BAe, which are also to be found "downstream" as sempli-

less advanced, and points out There is also French companies such as Dassault Electron. ique, SAT, and Sagem, German companies such as TST (part of Dasa) and BGT (part of Diehl); and British companies such as

GEC-Marconi. Sorting out the missile-mak. ers is the easiest part, but other areas may have to be tackled," says the French arms

aving formed a joint venture with Shorts of Belfast on very shart range misslies last March, Thomson-CSF is standing aloof from the current missile merger game. Its president Mr Alain Gomez, has a more urgent dossier on his table: the government's desire to know soon whether the defence compeny should be privatised with

or without Thomson Consumer Electronics (TCE). The privatisation of Aérospa tiale is clearly more distant.

And this is not just because of the first half of this year - which Mr Francois Lentard, the defence minister, hopes soon to remedy with a capital

Presenting the company for sale before the 1995 election would almost certainly provoke a row with President are. terrand, who has on several occasions proclaimed his opposition to putting France's

Siemens launches agreed | Swiss travel group slides bid for Teleco Cavi

By Haig Simonian in Milan SHARES in Teleco Cavi. the Italian maker of power and telecommunications cahles, were suspended yesterday after Siemens of Germany launched

an agreed takeover hid. Siemens is spending L104bn (\$62.5m) to huy control of GCR, the family holding company which owns just over 50 per

cent of Teleco Cavi's ordinary Almost 70 per cent of GCR is owned hy the founding Bruni family, which is selling its entire stake. The remainder is held by BICC, the UK indusItalian industrial holding com-

Siemens will have to launch a public tender offer for the remaining Teleco Cavi stock, in line with new Italian stock exchange rules. However, the German group said it intended

to maintain the company's stock-exchange listing. Siemens said the purchase was part of a strategy to consolidate its position in the rapidly changing European cables

profits of L256bn last year on

business.

Teleco Cavi, which is based in the Ahruzzo region of southern Italy, made group net SFr40m.

20% at nine-month stage *

By Ian Rodger in Zurich REISEBUERO Knont, the Swiss travel agency group, said-net income tumbled 20 per cent in the first nine months of 1968 to SFr35m (\$23.35m), reflecting depressed demand and prices in the travel sector. Sales were off 6 per cent to SFri.Shm.

The group, in which Kaufhof of Germany last year bought a 50.1 per cent stake (with 26.4 per cent of the votes), forecast that net income in the full year.

would fall 18 per cent to It described this perform as satisfactions grant speaker conditions

regions, except the UK and Germany. In the UK, the

> in the first nine months, reflecting near-16 per cent growth in abeling terms. German sales yere in 15 per cent to SFr117m. The group, controlled by the Knowl-Hagemobler foundation. said perenue from tour operat-

group's biggest market emaile Switzerland, sales were flat in Swiss frame terms, at SF1963m.

ing was up 4.5 per cent, while retail business was off 43 per: cent to SFr400m. * Business travel turnover

was down 3.1 per cent to.

the group to push up sales by south-east Asia as areas of was a 27 per cent. to SKrlö.Sbn. and strong growth, and noted a prices.

A Pera International Report

The first in a series of reports on major business issues Single Market: An empty promise?

A report by Pera International, the leading European business and technology organisation, suggests that the Single Market is a non-event for most small and

medium sized enterprises (SMEs). The survey Opportunity or Threat: sanguine approach to the The Single Market Reality for SMEs, the first to highlight the effects of the Single Market on small companies - says that, while 29 per cent of SMEs in the UK believe that European integration has led to an increase in sales. 70 per cent say that it has made no impact

and one per cent claim that it has caused an This picture is by no means confined to the UK. Similar companies in Germany. France and Spain, where 63 per cent have not yet experienced any benefit, show a much sharper decrease in sales (19 per

cent) and a much lower increase (18 per

Because of their capacity to adapt quickly to changes in the market place, SMEs should he well placed take advantage of favourable

alterations in

Europe," said Ronald Armstrong, Chief Executive of Pera International. *But for most companies, both in the UK and Europe, the Single Market can only be classed as a non-event. As SMEs account for over 90 per cent of all European companies, this is a panicularly worrying

finding for the future economic health of

Pera International's survey, which involved

questioning over 4,000 companies,

including a series of face-to-face and

telephone interviews, reveals that UK

companies are taking a much more

Europe as a whole," he added.

the European Market and we expect them

to play a significant role in the new

Single Market than their

European competitors.

Ronald Armstmne

Over 70 per cent of UK respondents anticipate being able to maintain their current market position in the future and do not expect to lose position to competitors based in Europe - an attitude, says the report, which indicates "a very high level of confidence in (or perhaps naivety of) the true impact of the Single Market". European respondents showed a more measured level of expectation, perhaps based on the hard experience of the 30 per

market share to competitors in the run-up to the Single Market. "Far more European SMEs than their British counterparts have export figuring in their long-term plans - often with the UK as a target market. If British firms don't liven up their ideas we are going to see far more continental based comperition in the UK market than vice versa," commented

The reasons why companies are not yet

exploiting the Single Market include the

recession (cited by about half the

respondents throughout Europe),

complacency (many UK companies claim that there is sufficient demand in the home

cent of respondents who have already lost

market), increased cost of sales, marketing and distribution, and tmainly by European companies) the costs of translation. The repon says that small and medium sized companies in the UK are not as active in exporting as their European competitors, who already have a good record of trading with other local countries. SMEs in Europe are responsible for a larger share of their national exports than their UK counterparts. In the UK, less than

half of SMEs consider themselves as

export business.

SME BUSINESS STRATEGY FOR THE

Nevertheless, there is awareness of the opportunities of the Single Market by all respondents, with 59 per cent of UK respondents considering Europe sufficiently important to modify their longterm plans and 28 per cent including it in their shon-term plans. Ronald Armstrong explained A characteristic of small firms is that they do

not have a surplus of management time

which means long-term planning can be

seen as a luxury they can't afford -

particularly in times of recession.

ttuly he described as actively pursuing

Unfortunately exporting is an activity which requires long-term planning and "Unless such companies make adequate short and long-term plans for the Single Market, they will be unable to take

advantage of the opportunities clearly

available," he added. Pera International has been in existence for over forty years working with companies of all sizes, it has more experience of helping SMEs than any other organisation in Europe. Through its consulting divisions, membership and small firms consultancy schemes it has assisted over

For a complimentary copy of "Opportunity or Threat: The Single Market Reality for SMEs", please contact Pera International, Melton Mowbray, Leicestershire, LE13 OPB. exponers and less than 20 per cent can Tel: 0664 501501 Fax: 0664 501264

which involve the come

60,000 SMEs during the last fifteen years.

Grupo Financiero Mexival Banpais, S.A. de C.V.

trial group, and Fornara, an sales of L256bn.

(A Mexican Financial Group)

has acquired 51% of **ASEMEX**

Aseguradora Mexicana, S.A.

\$582,000,000

We acted as financial advisor to

Grupo Financiero Mexival Banpais, S.A. de C.V.

Bear, Stearns & Co. Inc.

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The Financial Times plans to publish a Survey on Management Buyouts

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By: Cilibank, N.A. (Issuer Services), Agent Bank. CITIBANCO

FUTURELINK

of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is

and western nuclear a Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, suppr fuels and other factors over which the nuclear industry has The state of the s

INTERNATIONAL COMPANIES AND FINANCE

Hewlett-Packard shares dip in spite of strong growth

By Louise Kehoe

HEWLETT-Packard, the US electronics and computer systems company, reported strong growth in sales and earnings for its fourth quarter. But concerns about increased costs and inventories drove down the shares \$2% to \$75%. Net earnings for the quarter rose to \$298m, or \$1.18 per share, compared with \$68m or 28 cents in the same period last year when the company took a restructuring charge of 36

cents per share. Net revenue increased to \$5.7bn from \$4.3bn in the same quarter of 1992, e 32 per cent increase.

By Bernard Simon in Toronto-

THOMSON Corporation, the

Canadian-controlled travel and

publishing group, blamed adverse exchange rates and

competitive pressures in several of its key publishing businesses for near-stagnant third-

Net earnings edged up to

US\$226m before preferred

share dividends, or 39 cents per common share, from \$221m, or

38 cents a year earlier. Sales dipped to \$1.86hn from \$1.94bn.

remained unchanged from average 1992 levels, earnings

:would have been 44 cents per

share in the latest period, and

Nine-month earnings rose to

\$249m, or 42 cents a share,

if exchange rates hed

quarter earnings.

fourth quarter," said Mr Lewis Platt, HP chairman, president and chief executive. "But upward pressure on cost of sales continued, and inventory levels were higher than we'd like."

HP's cost of sales for the fourth quarter was 61.4 per cent of net revenue, against 58.1 per cent in the fourth quarter of last year. Price cuts and a continuing shift toward products carrying higher sales costs were factors, the company said.

Inventories increased 41 per cent to \$3.7bn from \$2.6bn et the end of the last fiscal year. Part of the increase was attributable to new product intro-"This quarter was a hig improvement over last year's ductions, the company said.

Operating expenses rose 11 per cent to 30.2 per cent of net

from \$244m, or 41 cents.

The brightest spot so far this year has been the travel busi-

ness. Although UK-based

Thomson Travel'a nine-month

operating profit dipped to

\$143m from \$146m, the com-

pany said that there was an

18.6 per cent jump measured in

rose by 11 per cent last sum-mer, and sales of winter holi-

days are 16 per cent ahead of

The company said summer 1994 bookings have heen "exceptionally high" since its

brochures were launched in

late August, leading to a "sig-

nificant" improvement in mar-

An official ascribed the

Thomson Tours' volumes

pounds sterling.

the year-ago quarter.

For fiscal 1993, revenue rose 24 per cent to \$20.3bn, from \$16.4bn the previous year. With revenues of \$15.6bn from computer products, service and support, HP has become the second-largest US computer company, after IBM, overtaking Digital Equipment.

Net earnings for the year were \$1.2bn, or \$4.65 per share, compared with \$549m, or \$2.18. last time after special charges. Before these charges, HP earned \$972m, or \$3.85 per share last year

Mr Platt said the company would launch important new products in several sectors in fiscal 1994 and efforts to reduce

poor weather, which has encouraged many people to

book a holiday in the sun for

next year. In the publishing and news-

paper divisions, poor perfor-

mances have been posted by the UK and US professional, business and academic publish-

ing gronps, as well as by

Thomson's Canadian newspa-per chain. In particular, busi-ness information publishing in

the US was hit by lower phar-

But UK regional newspapers'

operating profits were substan-tially ahead of last year, partly

due to a gradual improvement

in advertising, and partly to the sale earlier this year of

Thomson's loss-making free-

maceutical advertising.

ting and rationalisation in its Thomson third quarter quiet feed, poultry and rendering economy and last summer's

Net return edges ahead By Andrew Adonis at Maple

By Bernard Simon in Toronto

Leaf Foods

MAPLE Leaf Foods, the Toronto-based food processor controlled by the UK's Hillsdown Holdings, reported a small rise in third-quarter earnings, with improved agri-business and haking results offsetting slimmer margins from processed foods.

Net carnings climbed to C\$20.8m (US\$15.8m), or 26 cents a share, from C\$19.4m, or 24 cent. Sales rose to C\$778.5m from C\$695m.

Mr Brent Ballantyne, named yesterday as president end CEO, predicted that fourthquarter earnings would also exceed a year earlier.

Maple Leaf said the cost-cut-

operations heve paid off in sharply higher earnings. Bnt earnings from processed foods were hit by higher raw material costs and a move by consumers to cheaper prod-

The company said It aims to improve performance by launching new products end entting costs, giving greater ettention to private labels, and by further inroads into the US

EDS in multimedia joint venture

EDS, the computer services subsidiary of General Motors, yesterday announced a joint venture with France Telecom and US West, the US regional Bell operator, to provide interactive financial transaction services to the bome and business markets.

The joint venture, called Interactive Transaction Partners, marks a further advance in the multimedia ambitions of EDS and the telecoms

processing, has taken a 50 per Division, said the joint venture

the market.

cent stake in the joint venture. France Telecom and US West, which have developed the applications software, each have a 25 per cent stake. The investment plans of ITP are undisclosed.

ITP will offer integrated home hanking, bill payment and bill presentation services. It will be accessed by phone or personal computer with modem, with the potential for interactive television and screen phooes as they enter

Mr Neil Marcous, manager of

was a further step on the "information superhighway, integrating more kinds of consumer-oriented relation-

Services will be available in the US from oext April, and may he extended to Europe. The three partners are lead-

ers in the drive to produce multimedia services. Earlier this year British Telecommunications engaged in unsuccessful negotiations to huy EDS, which has operations in more than 30 countries. US West, which serves the

EDS, which will provide the EDS's Electronic Commerce Rocky Mountain states and

in the cable entertainment operations of Time Warner, the second largest cable operator in the US and a leading producer of filmed entertainment. With its Minitel project, France Telecom is one of the most ploneering of Europe's public telecommunications operators in the provision of inter-active

Mr Francois Olibet, president of France Telecom Intelmatique, said that "seamless multimedia services" like home banking would be the key to future success in the telecoms

Fund buys US hotel chain

In New York

A MORGAN Stanley property fund has agreed to pay about \$600m for the Red Roof Inns hotel chain in a deal that is new direction for the fund. Until now, the \$840m Morgan Stanley Real Estate Fund has bought distressed properties from banks and the Resolution

of assets owned hy bankrupt savings and loan companies. With the Red Roof deal, it is hranching out into going concerns. Red Roof is a solidly profitable chain of 210 low-cost

Trust Corporation, the govern-

ment agency handling the sale

motels spread across the US, with one of the highest occupancy rates in the iodustry. Morgan Stanley said the current management will continue to operate the chain.

Mr Paul Kazilionis, presideot of the fund, said: "Red Roof lnns is a well-known brand name with a loyal clientele. The acquisition fits with our strategy of identifying and acquiring attracting real estate opportunities along with their successful existing manage-

Red Roof was owned hy a private trust created by the chain's late founder, Mr James Trueman, The Morgan Stanley fund will pay the trust an undisclosed amount of cash, and assume the existing mort gage deht oo the chain's motel properties. The total amount comes to just over \$600m.

Morgan Stanley Real Estate Fund was established in 1991 with money from the New York investment hank and a group of institutional investors. It has invested in properties with capital worth more than \$2hn. Recent acquisitions include the California resort of Carmel Valley Ranch, and the Doral Telleruide ski resort hotel in Colorado, hoth in joint ventures with the Westcor Partners investment group.

Adolph Coors upgrades charge estimates

ADOLPH Coors, hrewer, expects to take e restructuring charge in the fourth quarter of 1993 in the range of \$100m to \$125m, rather than the previous esti-mate of \$65m to \$75m, Renter

The company also said it signed an agreement in principle with Madrid-based El Aguila to buy a 500,000 barrel brewery ln Zaragoza, Spain, allowing it to produce beer in Europe, and so reducing its reliance on American exports for European

All of these securities having been sold, this announcement appears as a matter of record only.

9,200,000 Shares

November 1993

Vard ferry group

after 9 months VARD, the troubled Norwegian cruise and ferry group, saw nine-month pre-tax losses widen substantially to NKr148.9m (\$17.8m) from NKr3.23m in the same period last year, writes Karen Fossif

pre-losses up

in Oslo. The deterioration is due largely to higher operating and interest expenses, foreign currency losses on debt, and an extraordinary charge of

Group revenue rose to NKr5.46bn from NKr4.11bn and operating profits advanced in early trading after Merrill slightly to NKr478.6m from NKr437.9m, as interest income increased to NKr13.37m from NKr6.47m. Interest expenses however, rose to NKr500.34m from NKr330.22m last year.

Vard said its Kloster Cruise subsidiary was being restructured, the results of which would take some time to be reflected in the company's

MR JOHN SMITH, General

Motors' chief executive and

president, outlined plans to

return the carmaker's troubled

North American operations to an after-tax profit in 1994.

It aims to increase US sales,

taking the group's market

share to 33-34 per cent from

around 31 per cent, and further

Contributing to the turn-

By Richard Waters

Philip Morris shares hit

rities and Exchange Commission, Philip Morris, the world's largest cigarette-maker, said it would present several options for cutting costs in its tobacco and food operations at a board

The stock shed \$1% to \$55%

The SEC filing, however, was

GM outlines plan for return to profit

als and a 12 per cent reduction in assembly time to 24-25 hours. Also, 1993 US sales are expected to reach 14.1 vehicles,

up 7 per cent from last year.

In its last quarter, GM's North American operations made a net loss of \$1.12hn,

after plant closure costs and

other items which resulted in a

The company is planning a 5

net charge of \$289m.

by warning of cost cuts

SHARES in Philip Morris fell yesterday morning after the US tobacco and food products group revealed it might take a fourth-quarter charge against

Lynch downgraded its rating on the issue.

sharply since April, when the company slashed cigarette prices by 40 cents a pack as part of a strategy to stem a declining market share for Mariboro and other premium

improvement to a stronger UK sheet papers.

in a filing with the US Secu-

meeting next Wednesday.

not unexpected.

By Frank McGurty in New York brands. In the third quarter, net income was down 25 per cent from the 1992 level. In October, the group warned that lower cigarette pricing and the market's con-

> Mr Ron Morrow, an analyst with Smith Barney Shearson, the New York securities house, said he "would not be surprised" if the cost-cutting measures under consideration included redundancies and plant closures. He estimated

the charge at about \$100m.

round this year have been e per cent increase in vehicle \$2bn cut in the cost of materi sales in the US in 1994, to

Revenues from its US tobacco operations have fallen

tinued volatility would "make fourth-quarter earning comparison unfavourable".

In the final quarter of 1992 the group posted net income of \$1.9bn, or \$1.34. Last week, Philip Morris said it would raise wholesale cigarette prices by four cents a

pack, matching an increase by RJR Nabisco and other cigarette manufacturers. Analysts responded to the move by upgrading their estimates of 1994 earnings.

14.8m. Even if this target is not

met, Mr Smith said GM should

make the planned return to net

profitability in North America.

said next year's targets are not

based on further job cuts. The

sale of various units and nor-mal attrition would push staff

levels down to around 245,000

next year, he said.

Mr Gerald Knetchtel, head of North American operations,

1,600,000 Shares

Common Stock

PaineWebber International

CS First Boston

Kidder, Peabody International

BNP Capital Markets Limited

Goldman Sachs International Limited

Nomura International

Bear, Stearns & Co. Inc.

A.G. Edwards & Sons, Inc.

Oppenheimer & Co., Inc.

Deutsche Bank

Salomon Brothers International Limited

This tranche was offered outside the United States and Canada

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PaineWebber Incorporated

CS First Boston

Kidder, Peabody & Co.

Banco Sabadell

This announcement appears as a matter of record only.

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ESP 20.000.000.000

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C.L. King & Associates, Inc.

First Equity Corporation Moors & Cabot, Inc.

Pennsylvania Merchant Group Ltd

This tranche was offered in the United States and Canada.

clude a deal as early as before

The construction company

also plans to sell its holding in

Westin International Europe,

the operating company based

in Hamburg, Germany, which runs some of its North Ameri-

can hotels and hotels in

Europe, if conditions are suit-

Aoki acquired the Westin

Hotels and Resorts chains

jointly with a US company in

1988 for \$1.35bn of which the

nies following the recent

decline in share prices believed

to have been triggered by the

The Japanese government wants to float Japan Tobacco,

a state-owned tobacco and salt

company by the end of next March, and the remaining

seven railway groups next fis-cal year. Mr Masaru Aratani,

listing came at a bad time for

the sluggish stock market. His

comments counter those of Mr

Minoru Nagaoka, Tokyo stock market president, who has denied claims the market'e

decline was caused by JR East.

JR East flotation.

the end of the year.

Brambles warns of 10% downturn

By Nikki Tait in Sydney

BRAMBLES, the Australian transportation, waste manage-ment and equipment services group, warned vesterday that profits in tha current year could be up to 10 per cent lower than in 1992-93. This would be a second succes year of falling profits; in the 12 months to end-June, aftertax earnings dipped from A\$180m (US\$118m) to A\$166m. The warning was provided

by the company's chairman, Mr Gary Pemberton, who told Brambies' annual meeting that current trading projections "indicate that there is virtually no npside on last year, but a downside containable within ten per ceot". "We must accept that the

maintenance of full-year profitability at the 1992/93 level is at some risk," be added. Mr Pemberton said the sudden change in the US hazardous waste market and the downturn in European economies were the two major factors dominating Brambles'

short-term outlook. "Given the realities of the current situation in Europe and the US, profit forecasting is difficult, particularly this year when we are anticipating an uneven half to half result with a number of factors pointing towards a stronger second half," be commented. He noted there had been some UK improvement, Germany was "sbowing signs of levelling ont", but France remained "under pressure".

Rocketdyne cuts up to 1,000 iobs

ROCKWELL International's Rocketdyne division is to cut its workforce by up to 1,000 people, or about 15 per ceut, over the next year, Reuter

The US rocket engine producer, which does most of its business with NASA, said the move reflects a reduction in funding for space programmes. Rocketdyne employs abont 6,800 workers.

Falling demand and strong yen hit Casio Computer

CASIO Computer, the leading maker of digital watches and electronic calculators, yesterday reported a plunge in parent pre-tax profit as it suffered the impact of the sharp economic downturn in Japan and the rapid rise of the yen. Casio suffered a 67 per cent

fall in pre-tax profits to Y2.8bn (\$26.16m) on sales that were 7 per cent down to Y159bn. Operating profits plummeted 82 per cent to Y1.3bn. The company blamed the

severe drop in private capital spending and personal consumption as well as the devastating impact of the yen's rapid rise for the deterioration in its business performance. Casio is revising its forecast

and continuing weakness in major economies. It now forecasts sales of Y415bn rather than Y450bn as predicted in May and pre-tax profits of Yilbn, rathar than

for consolidated sales and prof-

its in the full business year due

to the sharp rise of the yen

For the parent company, Casio forecasts sales of Y330bn and pre-tax profits of Y9.3hn. The company was particularly hard hit by falling overseas demand, particularly in Europe.

Calculator sales were modestly up on the same period last year but alectronic clocks and watches, electronic musical instruments and electronic office equipment all suffered a

Cost-cutting drive puts Daihatsu back in black

DAIHATSU Motor, tha Japanese carmaker belonging to the Toyota Motor group, returned to the black during the first six months to September, due to cost-cutting efforts, including the reduction of seasonal workers.

The company posted pre-tax profits of Y551m (\$5.15m) against an interim loss of Y4.9bn a year earlier. Operating profits totalled Y643bn, up from a loss of Y4.3bn, while after-tax profits totalled Y536m against a loss of Y4.9bn. Halfyear sales, however, fell 7.2 per cent to Y362.8bn.

Daihatsu said it lost Y7.2bn in profits through foreign sales, but managed to generate profits of Y12.1bn by cutting 1.000 seasonal employees.

Vshicle sales during the April to September term fell 6 per cent to 383,067 units. Domestic sales fell 8.8 per cent while exports rose 5.1 per cent. Domestic sales fell in all vehicle categories, with sales of agricultural machinery especially weak due to cold summer weather and typhoons.

For the full year to March, Daihatsu expects sales to fall 8.3 per cent to Y720bn. Pre-tax profits of Y2bn are expected against a loss of Y4.4bn, while after-tax profits are forecast at Y2bn, up from a loss of Y3.5bn

Newbridge in fourfold leap

NEWBRIDGE Networks, the share, up from C\$16.8m, or 24 Ottawa-based epecialised telecommunications equipment maker, has reported a fourfold profits increase for the first half ended October 30, writes Robert Gibbens in Montreal, First-half profit was C\$69.1m

cents, a share a year earlier, on revenues of C\$243m against C\$123.5m.

Second-quarter profit was C\$37.1m or 47 cents a share against C\$10.6m or 15 cents a share on revenues of C\$128m against C\$67,4m.

TPC puts Aoki holds talks on hotels sell-off block on new sugar venture

PLANS by CSR, the Australian sugar and building products group, to form a major sugar industry joint venture with the Mackay Sngar Co-Operative Association and London based trading house E.D.& F. Man, have run into opposition from the Australian Trades Practices Commission.

The joint venture was announced in August, when CSR said it would join with Mackay Refined Sugars - a joint arrangement between Man and MSCA - to form a white sugar production, mar-keting and distribution operation. CSR was to hold 50 per cent of the company, with MSCA and Man each taking 25 per cent. CSR would have con-tributed refinery assets in Perth, Melbourne and Auckland, while Mackay would have supplied its new low-cost refinery, being bnilt in Queensland, along with bulk storage facilities.

The partners claimed that the venture would create a refined sugar export industry in Australia, which has traditionally exported raw sugar only. Annual turnover of the ioint venture company was forecast at A\$500m (US\$327m).

Yesterday, however, the TPC claimed that the proposal would substantially lessen competition in the refined sugar industry and push up prices for sugar and products

containing it.
The TPC said that the companies were pooling refining capacity which would have given them a joint market share of over 50 per cent and that "having combined the assets, the companies would not compet

It suggested that CSR was insulating itself from competition which would otherwise have been generated by a new Mackay refinery, ami said that the proposed export benefits been overstated. The TPC also rejected the argument that imports would be an effective constraint on prices. given bigh freight and han-

Sale of those businesses would in effect end Aoki's hotel busi-

By Michiyo Nakamoto

AOKI, a medium-aizad ness in the US, which makes Japanese construction com-. pany which owns the Westin Hotels chain, said that it was in discussion with a number of parties with the aim of selling its Westin interests in North

The companies being put up for sale include the operating company of the Westin Hotels chain in North America and the North American hotels.

EAST JAPAN Railway, the

semi-privatised regional rail-

way operations due to the eco-

marginal fall in interim pre-tax

The earnings announcement,

JR East's first since its listing

on the Tokyo stock exchange

last month, reflected rising

operating costs amid lower rev-

enues. Pre-tax profits for the

first six months to September

fell 1.3 per cent to Y73.6bn

(\$687.85m) while overall revenue fell 0.6 per cent to Y995.2bn. After-tax profits fell

The company has not bene-

fited from its etock flotation

since the proceeds have gone

to JNR Settlement, which

NEWS DIGEST

SAB buys 80%

of Hungary's

largest brewer

country's largest consumer

goods company, yesterday announced that it was paying

\$50m for an 80 per cent stake

in Kobanyai Sorgyar, Hunga-

ry's largest brewer, writes

Nicholas Denton in Budapest.

investments of \$40m over four

to five years at the state-owned

Kobanyai's capacity will be increased to 2.5m to 3m hecto-

litres of beer per year, with

particular emphasis on the

brewery's Dreher brand. The

Kobanyai Sorgyar.

SAB is also committed to

6.5 per cent to Y38.1bn.

profits.

debt burden, which totalled over Y300bn (\$2.8bn) at the end of March this year. It hopes to be able to con-JR East blames sluggish railway

up about two-thirds of the com-

it raises through the sale of most of its stock in the Westin

Hotels chains and the North

American operating company

based in Seattle to reduce its

Aoki plans to use the funds

pany's hotel interests.

holds debts and shares of flotation of state-owned compaseven regional companies created in 1987 through the break-up of national operator. Japan National Railways.

way group, said sluggish rail-JR East's half-year revenue nomic slump caused a from its railway operations eased 0.7 per cent to Y954.8im, while operating profits fell 3.8 per cent to Y281.7bm. Revenue from its other businesses including real astate leasing and retailing operations, rose 2.1 per cent to Y40.3bn. although operating profits fell 28.7 per cent to Y3bn.

For the full year to March, the company expects a 0.2 per cent rise in pre-tax profits to Y101 2bn on a 0.6 per cent fall overall revenus to V1 968 2bn

chairman of Japan Securities Dealers Association, said that he was cautious over the impact of listing large-capital Mr Aratani said the JR East

Meanwhile, securities industry officials yestarday sed worries over further

State Property Agency, the privatisation anthority, named SAB as preferred bidder in pre-tax results

Holden marks resurgence SOUTH African Breweries, the

June this year.

HOLDEN, the Australian subsidiary of General Motors of the US, said its net profit jumped to A\$61.8m (\$40.30m) in the year to June 30 from A\$36.9m in 1991-92, Reuter reports from Melbourne. Holden said the 67 per cent

rise in net followed a 10 per A\$1.95bn. It said a resurgence in the six-cylinder car market and a continuing focus on efficiency and productivity targets helped the company to boost

Koito lists dimmer.

KOITO, a leading Japanesa maker of automobile lighting equipment, reported interim parent pre-tax profit 6.1 per (\$18.13m), compared with Y2.06bn a year ago, AP-DJ reports from Tokyo.

Net profit was 5.5 per cent lower at Y896m.

Cement in profit

ST LAWRENCE Cement, east ern Canada's biggest cement producer, reported net profits of C\$3.98m (\$3.01m), or 8 cents a share, in the third quarter, compared with a loss of C\$2m. or 5 cents, a year ago, writes Robert Gibbens.

The company is not revealing what kind of price it is looking

for the hotels.
Aoki has axtensive operations outside of Japan and operates hotels in Brazil Panama, Taiwan and Shanghai as well as the US and Ger-

many. With the business downturn in the west, however, the company is looking to concentrate its energies on the growing Asian market

Kraft buys Bulgarian operations for pre-tax downturn chocolate

By Theodor Troev in Sofia

KRAFT Jacobs Suchard, the Swiss foods group which is part of Philip Morris of the US, is buying 80 per cent of Repub-lika, Bulgaria's leading choco-late producer. The remaining 20 per cent will be offered to employees. The total investigation ment for purchasing and modernising Republika will amount to \$16m over the next fiva years.

This is one of the first successful large privatisation deals in Bulgaria involving a western partner.

Mr. Bernhard Hubert, the vice-president of Kraft Jacobs Suchard responsible for central and eastern Europe, said the acquisition was an important step in the east European strategy of the company.

Kraft Jacobs Suchard, which employs 32,000 people in 20 European countries, is expected to have operating revenues of \$9bn in 1993. Since last year, it has positioned itself in eathern Europe through the acqui sitions of confectionery, water and coffee producers in Hungary, Slovakia, the Czech Republic, Poland and Lithua-

In Bulgaria, the company will continue to market Republika's local products and will also introduce some of its brands, such as Milka tablets and Prince Polo wafers.

Republika, the country's oldest confectionery manufacturer, was founded in 1905. Last year, it produced over 8,000 tonnes of confectionery. Its output satisfied up to 35 per cent of the Bulgarian market.

(US\$52.30m), or 87 cents a **Golden Hope Plantations Berhad** (Incorporated in Malaysia) Tun Ismail bin Mohamed Ali (C Data Abdul Khalid bin Ibrahum Zain Azahari bin Zainal Abidun Mohammad bin Abdullah oed Ali (Chaurant) Howe Yoon Chong Dr. Ng Chong Kin INTERIM REPORT FOR THE SIX MONTHS TO **30TH SEPTEMBER, 1993** The Directors announce that the unaudited results for the six months to 30th September, 1993 were: 1992 RMT000 37,119 19 322,635 285,076 13 44,304 4,198 Investment and other income 4,854 2,401 5,643 54,439 Operating profit 43,328 16,953 161 6,489 Associated Companies .. 3,556 4,806 (26) 16.953 Profit before taxation (See Note 1) 57,995 48,134 20 6,489 161 Taxation (See Note 2) 17,472 15,035 [16) 1,692 918 (84) Profit after taxation but before 15,261 5,571 174 2,982 2,060 (45) 37,541 31,039 21 15,261 5,571 174 <u> 2,828</u> <u>-</u> <u>80</u> rdinary items (See Note 3) ... 15,261 5,571 174 Profit attributable to shareholders (1) After charging 2.132 1,725 3,032 (2) Taxation includes 1,692 918 - Current (608)(3) The extraordinary items comprise 2,828 2,828 23,508 (4) There were no pre-acquisition profits included in the results for the half year 1993 1992 12.6% Profit after taxation but before extraordinary item as a percentage of turnover 11.7% Profit after taxation and minority interests but before extraordinary item as a percentage of shareholders' funds 1.8% 1.7% 3.7 RM2.21 Net tangible asset backing per share* The net earnings per share and net tangible asset backing per share are calculated based on the enlarged share capital nf 986,979,499 (1992 : 845,982,428) shares in issue following the completion of the rights (5) The Company has changed its financial year end from 31st March to 30th June and will therefore be preparing fifteen months accounts in 30th June, 1994. The increase in profit is mainly attributable in higher sales volume of palm products and better prices of rubber together with improved performance of property development. The Group profit is expected to be higher in the next nine months of the financial period ending 30th June, 1994 due to expected higher contribution from plantations and property development. HARVESTED CROPS - tomes 1992 646,742 128,162 150,439 44.836 36,202 15,689 17,724 3,518 3,689 Cocoa .. COPIES OF THE COMPANY'S INTERIM REPORT A copy of the Company's Interim Report will be posted to shareholders on 22nd November, 1993. Copies will also be available from the Company's registered office and the Branch Registrar, Barchys Registrars, Bo House, 34, Beckenham Road, Kent BR3 4TU, United Kingdom. By Order of the Board Nortin binse Abdul Samad **KUALA LUMPUR**

SOCIETE GENERALE FRF 500.000.000 SUBORDINATED FLOATING RATE NOTES DUE 2001 In accordance with tha Terms and Conditions of

the Notes, notice is hareby given that the Interest Paymant Dates in 1994 in respect of tha subject Notes shall be as follows: March 16, 1994 June 15, 1994 September 21, 1994 December 21, 1994 The Principal Paying

Agent
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SOCIETE GENERALE
GROUP
15, avenua Emile Reuter LUXEMBOURG

COMPAGNIE BANCAIRE COMPAGNIE BANCAIRE FLOATING RATE NOTES DUE 1997

In accordance with tha Tarme and Conditions of e Notes, notice ie hereb givan that the Interest ayment Dates In 1994 in respect of the subject Notes shall be as follows March 16, 1994 June 15, 1994 Suprantoer 21, 184 December 21, 1994 The Principal Paying Agent SOGENAL SOCIETE GENERALE

GROUP LUXEMBOURG

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The Sunitone Trust & Sunking Co., Ltd. Agent Bank BANK OF QUEENSLAND LIMITED

USS 128,990,096 MULTIPLE OPTION PACILITY In necordance with the provision of the Transferable Loan Certificate insued on November 16, 1992, notice is barely given that for the six month laterest period from November 17, 1993 to May 17, 1994, the Certificate will carry an laterest Rate of AUCSS per names. DATED SEPTEMBER 22, 1992 tays Back PLC, Hong Kon

CONTRACTS & TENDERS

CRUDE OIL PROCESSING IN ROMANIA



GENERAL NOTICE

RAFIROM S.A. - The Petroleum Holding Group of Companies representing the Romanian Refining Industry is going to organize an atemational competitive bidding for processing about 70,000 mtons of crude oll per month during 1994 in its refineries, based on most

This quantity is the only spare refining capacity throughout 1994 for

International oil companies interested in participating in this ompetitive bidding are invited to register their interest not later than the 6th of December 1993 by writing to:

> PETROLEXPORTIMPORT S.A. 1-3 Magheru Blvd. Phone (40-1) 613.30.45 Fax (40-1) 615.65.50 Tolex 11519 Petex R Cable: Petrolexportimport S.A.

The crude oil grades, the yields per each crude oil grade, the bidding documents and the qualification conditions can be obtained from PETROLEXPORTIMPORT S.A. - member of RAFIROM S.A.

LEGAL NOTICES

No. 009525 of 1993 In the High Court of Justic Champery Division Mr Registrar Buckley

IN THE MATTER OF AL MUTUAL INSURANCE LUMITEE

IN THE MATTER OF THE COMPANIES ACT 1965

COTICE IS HEREBY CIVEN that by an Order dated 9th November, 1993 made in the above is the Court has directed that a meeting be convened of the crediture of Membelpai Metteal Las Josted the "Computy" as to each of which both:

1. ms at the close of hearings on 30th Sentencher 1993 these more recorded to the best of the court of the close of the court of t

(R) is not creditor considers that it but (or may have) claims against the Company including chains which have been reported but not entablished and claims baned on isosate which have been focused by the property of an aggregate amount which would, if established, result in the provisions of sub-paragraph (h)(r) above being austificid;

(where the defined forms used lievan have the same respective meanings as they are given in the Schwere of Arrangement bereinsthre more non-income for the purpose of considering and, if thought fit, approving (with or without modification) a Schware of Arrangement proposed to be such the testing and the testing fit of the purpose of the schware of Arrangement proposed to be such that the company and in testing the modification of Schware of Arrangement) and that each senting will be held at Cratral Hall, Storey's Gate, London, SWI at 2,00 mm or Workmany Sh. January, 1994 at which place and thus all such creditors or entitled are required to the finished parameter to acction of 50 of the above mentioned Art from the Company Secterary of the Company 22 Old Queen Street, Westminster, London SWI H 945W and as the offices of the nationated solicitors at the address below during a sense business bours on very day (strine than a Saturday Sunday or public includintly pirot to the day appointed for the static meaning. Creditors costiled to attend said who at the sweling may wook in person at its received that the Form of Proxy contained in the Voting and Praxy Form should be lodged with in recordant that the Form of Proxy contained in the Voting and Praxy Form should be lodged with

The Company Secretary, Manfelpal Mutual Insurance Limited, 22 Old Queen Street, Westnalingter, London SW114 94tW by 2.00 per or 31st December, 1993 but if a Form of Poury is not so lodged it may be busined to the Chairman at the meeting.

By the said Order, the Copyl lost appointed Sir John Lovill or, fulfleg him, Philip Gregory or falling him, have ph Sensit to act as Chairman of the said macking and has directed the Chairman to report the result thereof to the Const.

The Scheme of Arrangement will be saidject to the subsequent mantion of the Arrangement will be saidject to the subsequent sanction of the Arrangement will be said on the Scheme of Arrangement will be saidject to the subsequent mantion of the Arrangement will be saidject to the subsequent mantion of the Arrangement will be saidject to the subsequent mantion of the Arrangement will be saidject to the subsequent mantion of the Arrangement will be saidject to the subsequent mantion of the Arrangement will be saidject to the subsequent mantion of the Arrangement will be saidject to the subsequent mantion of the Arrangement will be saidject to the subsequent mantion of the Arrangement will be saidject to the subsequent mantion of the Arrangement will be saidject to the subsequent mantion of the Arrangement will be saidject to the subsequent mantion of the said the said to the said the sai

DATED 15th November, 1993 Slaughter and May, (Ref. RLH) 35 Basinghan Street, London HCZV 5DB Solicious to the Company

This announcement appears as a matter of record only.

17.666.586 Certificates of Shares

INTERNATIONALE NEDERLANDEN GROEP N.V.

have been sold by THE STATE OF THE NETHERLANDS

Pension Fund PGGM

Advisor of the transaction:

ING INVESTMENT BANK

October 1993

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FINANCIAL TIMES

THE WEST **EUROPEAN** BUSINESS TRAVEL MARKET 1993-97 BY KEVIN O'BRIEN

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US\$250,000,000 Floating Rate Subordinated Capital Notes due August 1996 CITICORPO

Notice is hereby given that the Interest gayable on the relevant Interest Payment Date November 23, 1993 for the period August 14, 1993 to November 14, 1993 opainst Coupon No. 37 in respect of U.S.\$50,000 nominal of the Notes will be U.S.\$670.84

November 18, 1993, London



Lloyds Eurofinance N.V.

11½ per cent. Guaranteed Bonds due 1994

Unconditionally and irrevocably guaranteed on a subordinated basis by



NOTICE IS HEREBY GIVEN that pursuant to Condition 6(a) of the Bonds, U.S. \$20,000,000 principal amount of the Bonds has been drawn for redemption at their principal amount.

Payments of principal will be made in accordance with Condition 5 of the Terms and Conditions of the Bonds on or after 30th December, 1993 at the specified office of any of the Paying Agents who are listed in the Terms and Conditions of the Bonds, against surrender of the Bonds with all unmatured Coupons attached, failing which the face value of any missing unmatured Coupon will be

deducted from the payment. Any amounts of principal so deducted will be paid against surrender of the relevant missing Coupon within a period of six years from the date mentioned on the Coupon. Accrued interest due 30th December, 1993 will be paid in the normal manner against presentation and surrender of Coupon No. 11 on or after 30th December, 1993. Interest on the Bonds drawn for redemption will cease to accrue from 30th December, 1993.

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Tatsuko Dawes Financial Times Ltd.

Notice to the Holders of

The Peninsular and Oriental Steam

Navigation Company

£75,000,000

4¾ per cent. Convertible Bonds 2002

("2002 Bonds")

Pursuant to Condition 13 of the terms and conditions

of the 2002 Bonds, nonce is hereby given that the

conversion price of the 2002 Bonds has been adjusted,

as a result of the issue of new deferred stock by way of

the enhanced scrip dividend to the deferred stockholders

of The Peninsular and Oriental Steam Navigation

2) The adjusted conversion price took effect on

The Peninsular and Oriental

Steam Navigation Company

79 Pall Mall, London SW1Y 5EJ

18 November 1993

The adjusted conversion price at 698p per

Company, as follows:

£1 nominal of deferred stock.

10 November 1993.

Number One Southwark Bridge, London SWI 9HL. England

TEL: 071-873 3260 FAX: 071-873 3595

INTERNATIONAL COMPANIES AND FINANCE

Wall St savours Boston Chicken

The fast-food chain had a successful IPO. Frank McGurty reports

(BAD NEWS, BYERYBODY - WE'RE FLAVOUR

OF THE MONTH ON WALL STREET

ling fast food chain, became the new darling of Wall Street last week. It launched the most successful initial public offering in two years, as investors snapped up the shares in the belief that the company, a relative newcomer. would be more than just fla-

your of the month. Tha recipa that attracted investors to Boston Chicken is a promising markating concept and an experienced management team. Analysts, however, questioned whether the willingness of small investors to take s risk was prudent.

In last Tuesday's IPO on the Nasdaq over-the-counter market in New York, the stock sizzlad from the opening bell. With L9m shares, or about 10 per cent of the company, offered at \$20 each, trading started et \$45%, and the issue climbed as high as \$51 before closing et \$48%.

At that price, the company, which two years ago operated only 33 restaurants, was valst more than \$800m.

Ms Linda Killian, analyst at Renaissance Capital of Greenwich, Connecticut, said there had been much talk before the launch of the IPO, intensifying having pressure from small investors who were excluded from the \$20-a-share offering.

The company, based in Chi-cago, started eight years ago with one restaurant in Newtonville, Massachusetts, just west of Boston, and has quickly grown to 175 locations. It was acquired by a group led by several former executives of Blockbuster Entertainment in March 1992.

Chicken, of course, is no stranger to fast food. The new wrinkle pioneered by the Boston Chicken is roasting it on a financial officer, said e central pillar of their marketing strategy was to capitalise on the increasing number of takeaway mea

mashed potatoes, corn hread and steamed vegetables. Most analysts agree Boston So the chain provides fast Chicken has strong potential. food customers with healthy, back-to-basics options to burgers and french fries, while However, in the light of its limlted operating experience, many have raised questions taining snappy service and over its stock-market value. low prices. With Americans becoming As a result, the issue has

more health conscious, the started to lose some of its lusconcept seems to have struck a chord and many industry observers believe it will grow tre. By the close of trading on Tuesday, the share price stood at \$42. There is sufficient evidence in popularity.

Sales of roasted chicken this to support e sceptical view. Revenues last year were a mere \$8.3m, and the company year are expected to reach \$2bn, compared with sales of posted a net loss of \$5.7m. fried chicken at \$7.5bn, accord-Even et Tuesday's \$42 a share, the stock was trading at ing to the annual Top 100 smvey of fast-food restaurants about 76 times estimated 1994 conducted by Nation's Restauearnings of 55 cents a share. In rant News, a trade publication. Boston Chicken is emphasis-1995, net income is estimated

account for about 70 per cent of its business, a much higher Mr David Lebowitz, senior vice-president and director of research at Republic New York proportion than at other Securities, said it was difficult Mr Mark Stephens, chief

by analysts at 85 cents a

to justify the current stock

Boston Chicken is too young and too small to apply the normal yardsticks," he

In the short term, at least Boston Chicken is poised for substantial growth. The company said revenues in the nine months of 1993 were \$28m against 55m last year, and It has become marginally profit able. Full-year turnover will reach \$35m-\$46m and \$55mssom in 1994, according to Renaissance Capital's estimate

The management has out lined an ambitious expansion plan. The chain has tripled in size over the past year and within three years, the number of restaurants is expected reach 600, with locations in most leading US markets.

Boston Chicken will finance the building programme with the \$55m proceeds from the IPO, plus a concurrent offering of 900,000 restricted shares to

Ms Killian said one of the pivotal elements of the chain's successful expansion since 1991 was its "tight control of fran-

chising". Unlike most fast-food chains Boston Chicken provides s large portion of the development canital for new locations in the form of loan. The debt is later convertible into equity, giving the company greater control over the network.

Mr Scott Back, the company's chairman and a former vice-chairman of Blockbuster, used a similar financing scheme in the 1980s to develop the video-rental enterprise into the 3.600-store empire with annual revenues of \$1.250 Clearly, many small investors are hoping for a repeat perfor-

Steyr-Daimler-Puch expects deeper losses

By Patrick Blum in Vienne

Steyr-Daimler-Puch, the Austrian motor group, expects losses to rise sharply this year to about Sch320m (\$27m). This would represent a marked deterioration compared with the 1992 deficit of Sch65m. Parent company losses are expec-ted to be about Sch180m.

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The company said yesterday the sudden worsening of its position stemmed from tha downturn in the antomotive industry world-wide. Several group companies are running below capacity. The armoured vehicles division has stopped production because of government export restrictions on military equipment.

ing take-away meals, which

spit, rather than frying it. The

menu is rounded off with fami-

ly-style side-dishes, such as

Group turnover for the first six months of 1993 was Sch5.59bn, down Sch2.54bn on 1992. The group said small improvements may be achieved next year, but a return to profit would have to wait until 1995.

The company has been restructuring with the work-force falling from about 7,700.

J.P. Morgan & Co. incorporated: US\$200,000,000

employees to 5.500 this year. Further lay-offs are expected before the end of the year.

SDP is 71.2 per cent owned by Creditanstalt Bankverein, the large Austrian bank in which the state has a 49 per. cent stake but 70.5 per cent of the vote. The bank wants to sell most of its industrial holdmes.

Notice to the Holders of



The Peninsular and Oriental Steam **Navigation Company**

£150,000,000 7¼ per cent. Convertible Bonds due 2003 ("2003 Bonds")

Pursuant to Condition 16 of the terms and conditions of the 2003 Bonds, notice is hereby given that the conversion price of the 2003 Bonds has been adjusted, as a result of the issue of new deferred stock by way of the enhanced scrip dividend m the deferred stockholders of The Peninsular and Oriental Steam Navigarion Company, as follows:

- 1) The adjusted conversion price at 672p per £1 nominal of deferred stock.
- 2) The adjusted conversion price took effect on 10 November 1993.

The Peninsular and Oriental Steam Navigation Company 79 Pall Mall, London SW1Y 5EJ

18 November 1993

£200.000.000

MFC Finance No. 1 PLC

In accordance with the Terms and Conditions of the Notes.

notice is hereby given that the new interest rates and periods in respect of the subject Notes are as follows:-.

HENDERSON UNIT TRUST MANAGEMENT LIMITED

(Member of IMRO, Lautre and AUTIF)

Announce with effect from 17th November 1993, HENDERSON TR EXEMPT NORTH AMERICAN FUND has been merged following an approved Scheme of Amalgamation into HENDERSON NORTH AMERICAN EXEMPT TRUST

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d Floating Rate Notes Due October 2023

CITIBANCO



Shawmut Corporation U.S.\$50,000,000 Floating Rate Subordinated Notes

Due 1997

Notice is hereby given that the Rate of Interest has been fixed at 5% and that the interest payable on the relevant interest Payment Date February 18, 1994 against Coupon No. 36 in respect of US\$10,000 nominal of the Notes will be US\$127.78.

November 18,1993, London By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANCO

FT-ISMA INTERNATIONAL

BOND SERVICE THE FT-SAM intermational Bond Service, published on Menday to Friday in the improbal Times, shows daily prices, provide by the international Securities Maries. Association, for a selection of the most achely maded Eurobonds and related equities, pided from the security which be represent current mariest conditions. The service sets out to include certain encinant issues muse um apaca de, while still trying in maistain 2 bros ad of borrowers and correctly groups. Selections are reviewed regularly by the Financial Times and the International

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Subordinated floating rate FINANCIALTIMES

notes due August 2002 in accommonce with the ons of the notes, notice is hereby given that for the interest period 18 Novembe 1993 to 18 February 1994 the notes will carry an interest rate of 5% per annum, interest payable on the relevant interest payment date 18 February 1994 will amount to US\$63.89 per US\$5,000 note. Agent: Morgan Guaranty Trust Company

JPMorgan

Wells Fargo & Company US\$200,000,000 Floating rate subordinated

capital notes due 1998 The notes will bear in 3.5625% per annum for the interest period 18 Novemb 1993 to 18 February 1994. Interest payable on 18 Februar 1994 will amount to US\$91.04 per US\$10,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

The Republic of Venezuela U.S. \$211,139,000

Collateralized Floating Rate Bonds due 2020 **USD Discount Series B**

In accordance with the provisions of the Bonds, notice is hereby In accordance with the provisions of the isonos, nonce is reviewly given that for the Interest Period from November 18, 1993 to May 18, 1994 the Bonds will carry an interest Rate of 4.3125% per annum. The Interest payable on the relevant interest payment date, May 18, 1994 will be U.S. \$21.68 per U.S. \$1,000 principal

By: The Chase Manhattan Bank, N.A. Agent Bank

November 18, 1993



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November 18,1993, Landon By: Citibank, N.A., (Issuer Services), Agent Bank CITIBANCO

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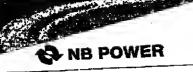
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> which involve the consumution of more than 20 reactors. At

the very least Russia is likely to need World Bank help if it is to proceed. In tha Ukraine, unable and

and western nuclear scientists. tha WANO governing hoard and deputy general manager of Electricité de France, told the



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INTERNATIONAL CAPITAL MARKETS

Belgium interest rate cuts inspire continental markets | Argentina issues

FT FIXED INTEREST INDICES

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By Sara Webb in London and Patrick Harverson in New York

EUROPEAN and UK government bond prices soared yesterday, propelled by hopes of lower interest rates.

Belgium provided the main inspiration for the continental bond markets as the combination of a government economic recovery plan and sharp cuts

GOVERNMENT BONDS

in key interest rates lifted bond prices by as much as a

The Belgian 10-year yield spread over German govern-ment bonds - which was about 120 basis points earlier in the month - narrowed from 109 to 94 basis points at one stage yesterday but ended at around

The Belgian government's package of spending cuts and tax increases, aimed at reducing the deficit while lifting competitiveoess and employment, allowed the central bank to cut its key interest rates. The Belgian rate moves

Statoil borrows

\$1bn through

five-year loan

STATOIL, the Norwegian state oil company, has raised \$1bn

through e five-year syndicated

loan. The loan will re-finance

two expiring revolving credit

facilities totalling \$600m and

raise fresh funds for the com-

Bankers invoived in the deal

said that the lack of high-qual-

ity corporate borrowers seek-

ing to raise funds in the syndi-

cated loans market had enabled Statoll to achieve

Banks had been willing to

agree to the terms in the hope

that it would lead to more busi-

bed been involved in the expir-

ing facilities but that a core

group of 19 banks were

participating in the new

Deutsche Bank and JP Mor-

gan are joint co-ordinators of

the loan, which is done to be

signed on November 24.

Statoll said that 41 banks

aggressive pricing.

ness with Statoil.

By Antonia Sharpe

European markets, raising hopes of interest rate cuts elsewhere, while expectations that the North American Free Trade Agreement would pass contributed to the markets' generally enthusiastic mood.

sharply higher on hopes of a near-term rate cut by the Bank

futures contract ended a quarter of a point higher on the day, having traded in a range of 99.95 to 100.35 and ending at around 100.27.

regular council meeting, dealers said the majority view appeared to be for an easing in December. The keenly-watched money supply figures are due this week while cost-of-living data is expected next week.

■ NEWS of a sharp fall in inflation and a weaker-than-expected increase in retail sales

■ FRENCH bonds ended

Although the German market was closed for a public hol-iday yesterday, the Liffe bund

While there is some specula-tion that the Bundesbank may announce cuts in the key German interest rates today at the

inspired rallies in several other

103.54 103.13 103.07 102.74 102.62 94.06 103.60 93.28 123.78 223.47 123.24 123.25 123.32 109.01 125.20 108.61 Basis 100: Government Securities 15/10/26; Fixed Interest 18/26.
* for 1995. Government Securities high aince completion: 127.40 (8/1/25), low 49.18 (3/1/75).
Fixed interest high since completion: 125.20 (1/9/50), low 50.53 (3/1/75) GILT EDGED ACTIVITY New 15 Nov 12

> led to a sudden jump in UK government bond prices and renewed speculation of e base rate cut in the near future. Gilt prices rose across the board and ended as much as a point higher on the day. The

of its outstanding tap issues. ■ LONG-DATED Japanese government bonds bounced back to life lats in Tokyo trading, with the result that cash and futures prices eoded higher on the day.

rally enabled the Bank of

England to sell the remainder

The market started on a weak note as medium dated sues - which enjoyed much of the recent rally in the bond market - underperformed and dragged the rest down.

However, shortly before the futures market closed the market surged on strong domestic investor interest and dealers covering short positions.

■ THE Spanish Treasury will make its first issue of 15-year bonds in the domestic market on December 2, the longest maturity previously being 10 years, Reoter reports from Madrid. The issue will carry a coupon of 8.20 per cent, with amortisation in 2009. The Bank of Spain said the minimum amount in this first tranche would be Pta100bn.

■ AFTER two days of declines. longer-dated US Treasurles posted solid gains yesterday morning as bopes rose that

BENCHMARK GOVERNMENT BONDS
 Red Price
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 Month 3g8

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5.750 08/03 101-05 -67-52 6.250 08/03 101-15 -68/02

London closing. Where York marring session.

1 Gross around year (including warmstering tax at 12.5 per cert payable by non-nextents.)

Phases US, UK in 32nds, others in decimal.

7 control Data/ATLAS Price Sources

8 000 04/03 111,4000 +0 400 6 25 6.50 6.33

Nafta would be approved by accounts staying out of the Congress.

accounts staying out of the action until the Nafta vote, By midday, the benchmark 30-year government bond was up 12 at 10121, yielding 6.123 per cent. At the short end of the market, the two-year note was

uochanged at 99%, to yield 4.042 per cent. Although trading remained quiet, with many retail

dealers were confident enough that the House of Representatives would pass the trade pact that they pushed longer-dated prices higher throughout the morning, Nafta is seeu as bullisb for bonds because analysts

Book runner

Lehman Bros. Kultder Pezbody Inti. LTCB Ind.

Nomura Secs. (Tokyot Nomura Secs. (Tokyo) Goldman Sachs Inti. DKB International Yamaichi Bani.

\$500m in 10-year global bonds

ARGENTINA is to issue about \$500m in 10-year dollar-denominated global bonds next month, refinancing debt falling due io December.

Mr Dauiel Marx, finance under secretary, said yesterday the new bonds would "be an undated model of Argeotina's traditional Bonex [external bonds and a blend of global

Argentina had \$3.82bo in dollar-denominated Bonex outstanding in July 1993. They enjoy an unrivalled reputation in the local market sioce the government bas

repayment. Argentice private and government borrowers have been issuing record volumes of bonds on the Euromarket.

ment and oever postponed

However, the federal government bas been rolling over redemption, existing debt or reshaping its debt profile rather than raising fresh

funds. Mr Marx said the new fixed interest Global Bonex would be

priced early next month. The issue is being bandled by Merrill Lynch and Salomoo Brothers of the US and Argentloa's Banco Rio. The bonds will be listed in US, European, Asian and Latin American markets.

They will also be registered with the US Securities

Exchange Commission.
Mr Marx said previous Bonex issues bad been cumbersome, with settlemeot requiring physical exchange of certificates, which inhibited trading. The new global Bonex should becefit from improved settlement procedures and therefore

Kepco launch hampered by investor fatigue tors had retreated to the side-

INVESTOR fatigue appeared to be hampering the launch yes-terday of the first global bond offering by Korea Electric Power Company, South Korea's partially privatised nower utility.

Lead manager Lehman Brothers said it had seen strong demand for Kepco'e \$1.35bn offering of 10-year global bonds following its INTERNATIONAL

BONDS

international roadshow and that it had built up a large book of more than \$1bn.

However, Lehman Brothers acknowledged that other banks in the group were finding that their bond allocations were selling slowly. Syndicate managers in the group sald that in some cases, investors who wanted to buy the bonds had placed their orders through Lehman Brothers. They noted that many inves-

lines and were reluctant to take on oew investments so close to the end of the year. In addition, some investors were having to make credit declsions because of Kepco's single-A rating.

As a result of the feedback from investors and the recent uncertainty in the US Treasury market, the yield spread on Kepco'e bonds was set at around 90 basis points over 10year Treasuries, up from a target of 75 to 80 basis points. The boods are due to be priced

> If Kepco's bonds are priced at 90 basis points over US Treasuries, they will carry a coupon of about 61/4 per cent. Traders said this coupon should appeal to investors looking for high-yielding paper. Lehman Brothers expects

about 65 per cent of the bonds to be placed in the US where Kepco is well-known as a result of its issues in the Yankee market, the US domestic bond market for foreign borrowers. US investors tend to be

NEW INTERNATIONAL BOND ISSUES Sudweston LTCB/c)#

European counterparts to borrowers with single-A ratings. The remainder of the bonds are likely to be placed equally in Europe and Asia Pacific. Elsewhere, there was a flood

sector and in the Samurai market, the Japanese domestic bond market for foreign bor-The Bank of Greece raised

of new issuance in the Euroyen

more receptive than their Y100bo in the Samurai market through a Y40bn offering of four-year floating-rate notes and a Y60bn offering of 12-year bonds. Lead manager Nomura said the different maturities

reflected funding needs. Syndicate managers et Japenese banks said they expected more yen-denominated issues to emerge before the eod of the year since many borrowers believed that Japanese interest

rates were close to the bottom of their cycle. A number of European sovereign borrowers are expected

to tap this sector soon. The managers added that borrowers could achieve favourable terms in the yen market beceuse Japanese investors were willing to pay a little more in order to avoid baving any foreign exchange exposure.

Argentaria sale raises Pta170bn for Spain

By Tom Burns in Madrid

ARCENTARIA, the banking corporation controlled by the Spanish government, netted about Ptal 70hn for the Spanish exchequer yesterday when it placed 25 per cent of its equity on the domestic and international markets in its secood public share offering this

The share issue, which took place just six months after the the corporation's first share offer, brought the government held equity stake in Argeotaria down to just over 50 per cent. In spite of setting a price of Pta6,050 per share which was at the top of its previously announced range, Argeotaria's paper was beavily oversub-

The offer price represented a 5.61 per ceot discount on Tues-day's closing price of Pta6,410 and demand among US and UK investors was between four and five times the available

paper.
The strong bids for Argeo-

taria shares mirrored the success of the earlier placement when the equity was offered at a price of Pta3,800 end was also strongly oversubscribed.

Investor interest has been fuelled by firm third-quarter results and by the potential for further growth oo the back of cross-selling emoog the group's well-established niche

Argeotaria controls e group of state-owned financial institutions which include the post office savings bank as well as units that are market leaders in the domestic mortgage sector and in lending to the local

administration.
it is the fourth biggest group by market capitalisation on the Madrid stock market after Endesa, the electrical utility, Telefonica and the energy group

Argentaria ls 23 per cent owned by foreign institutions, although no single share. bolder owns more than I per

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE	RISES AND FALLS YESTERDAY	LIFFE EQUITY OPTIONS
Listed any the latest laterations bonds for which there is an adequate secondary market. Listed any the latest laterations at 6:55 pm on November 17 Chs. U.S. DOLLAR STRANSRIS Lessed Bid. Other day Yield OTHER STRANSRIS Lessed Bid. Other day Yield Abory Mail (Tressury 61-2 03	British Funda 63 8 7 Other Fixed Interest 4 0 11	CALLS POTS CALLS POTS CALLS POTS Opinion Jun Age Jul Jan Age Jul Deplice Nov Feb May Nov Feb May Opinen Dec Nov Jun Dec Nov Jun
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COMPANY NEWS: UK

Reduced underwriting loss lifts CU to £144m

By Richard Lapper

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A REDUCTION in underwriting losses helped Commercial Union, the largest composite insurer, increase pre-tax profits to £144.2m for the first nine months of 1993, against £6.1m for the same period of last year.

The figures were roughly in line with expectations and the shares rose 10p to close at

606p.
"The substantial improvement in geoeral insurance trading, especially in the UK. cootinued in the third quarter and life profits again made a significant contributioo," said Mr Tony Brend, chief execu-

tive. UK underwriting losses amounted to £59.8m (£128.6m). with London market losses of £70.9m (£65.8m) offsetting profits on other lines.

CU said that although market conditions were continuing to improve, there "are signs of lieu of dividends.

increased competition for private motor business".

General insurance premiums rose by 26 per cent to £3.1bn (£2.46bn), and life premiums increased by 7 per cent to £1.39bo (£1.3bn). Investment income advanced to £263.4m (£212.4m) - after charging external loan interest of £21.4m (£35.1m) - reflecting the benefit from higher cash flow, the proceeds of capital Issues and exchange rate movements.

Group underwriting losses fell to £215.3m (£302.3m). Associates contributions were £9.7m (£14m). Non-life profits amounted to £57.8m (£75.9m losses) and life profits were £86.4m (£82m). The figures include a loss of £3.7m, which relates to the termination of activities in Argentina. Shareholders' funds at Sep-

tember 30 increased to £2.31bn (£1.5hn at end-1992), which included £428m from the rights issue and £81m from shares in

Results this week from Royal General Accident and Commercial Union leave no doubt about the recovery in the UK insurance market. The main question for investors is which of the five large composites to favour. On some grounds CU looks a shade expensive. The company should comfortably achieve full year profits of £180m. So at yesterday's closing price, CU is on a prospective multiple of about 21, one of the highest ratings in the sector. However, in other ways the company appears to be a safer bet than its rivals. A historic gross yield of 5.1 provides firm underpinning. Less volatile life business provides a much higher percentage of CU's earnings than at any of its four main composite rivals. At the nine months stage, life provided 30 per cent of income and nearly 60 per cent of operating

Hanson sale gets under way

By Roland Rudd

HANSON, the Anglo-US conglomerate, will today signal the start of the sale of many of its smaller businesses by announcing the disposal of Axelson oil and gas in North

Mr Derek Bonham, Hanson's chief executive recently given chairman, is understood to have given the go-ahead to raise more than £500m from the sale of non-core businesses on both sides of the Atlantic.

The group has decided to take advantage of the appetite for new issues in the US and UK markets by drawing up plans for a number of flotations, although it is still planning to dispose of many of its smaller companies through

Both Mr Bonham and Mr David Clarke, chief executive of Hanson Industries, the group's US arm, have long been in favour of rationalising the group by concentrating its resources on blg businesses such as coal, building materials, tobacco and chemicals.

The rise in the group's net | per share emerged at 56p (43p)

debt to £3.5bn, however, has underlined the importance of bringing horrowings down

through disposals. Net debt rose significantly after last summer's acquisition of Quantum Chemical Com-

pany in the US, which had \$2.5hn (£1.67bn) of borrowings. The new management is understood to have received board to proceed with the rationalisation programme.

Mr Bonham, according to one of the group's advisers, believes Hanson must now degear the balance sheet in order to position the group to take advantage of any potential acquisitions in the

Axelson is seen as a typical example of the kind of busi-

controlled by Lyounaise des Dumez returned higher profits

Suffolk Water's rose from £2.4m to £2.9m pre-tax on turnover of £9.9m (£8.2m). Earnings

ness Hanson has now lined up

Since the group has no plans to be a big force in oil and gas it did not believe it could justify management time spent on Axelson which bas sales of \$60m and an annual profit of \$9m. It is being sold to a US company for about \$80m.

Other US companies earmarked for disposal include bousebuilding, consumer products and recreation and leisure companies.

in the UK Hanson is talking to Electra, the development capital group headed by Mr Michael Stoddart, which is backing a management buy-out team interested in buying a number of British businesse which could raise as much as

Water companies make progress

COMMERCIAL UNION

NINE MONTHS' RESULTS

Strong profit growth

Pre-tax profits from continuing activities increase to £144.2m.

General insurance trading conditions continue to improve,

HIGHLIGHTS

Notes: 1. Unprofitable operations in Argentina have been terminated incurring a charge of E3.7m.

2. The 1992 operating loss per share has been adjusted for the effect of the 1993 rights issue and the enhanced scrip dividend

Commercial Union plc, St. Helen's, 1 Undershaft, London EC3P 3DQ

9 months

Unaudited

£4,488m

£144,2m

£124.5m

20.7p

9 months

Unaudited

£3,761m

£6.1m

£(5.7)m

(1.8)p

water companies but the interim dividend is for the half year ended Septem-

especially in the United Kingdom.

Life profits increase to £86.4m.

Operating profit before taxation and loss on

Operating profit/(loss) after taxation and loss

on termination of activities (note 1)

alternative to the 1993 interim dividend.

Operating profit/(loss) per share (note 2)

Total premium income

termination of activities

Selective growth in life and general business.

Shareholders' funds increase to £2,314m.

23.3p (23.7p). Essex Water returned pre-tax profits of £9.9m against £9.4m on turnover of £35.4m (£33m).

Earnings per share were 90p (113p). The interim dividend on the voting A shares and non-voting B shares is 39.1p (36.8p).

Volex surge

VOLEX GROUP, the electrical interconnection products company, lifted pre-tax profits 49 per cent, from £3.21m to £4.8m, in the 26 weeks to September 30.

However, Mr Ken Hooper, finance director, said that the corresponding period did not include Mayor, the Singaporebased maker of data and power cord assemblies acquired in October 1992 for 26.5m, or CMS, the US moulded cable assemblies maker bought in January 1998 for £3.1m.

Group turnover grew 47 per cent to £72.5m (£49.4m) and operating profits advanced 81 per cent to £4.83m (£3.01m). Investment income rose to £448,000 (£222,000) though interest payable also rose to £478.000 (£18.000).

Mr Oliver Chapple, who hecame chief executive in October after Mr Howard Poulson had been head-hunted by Farnell Electronics in May. said that Volex now had three poles of operations - the Far East, Europe and the US. After the rapid expansion of the last two years - especially over-seas; 60 per cent of sales are now ontside the UK - Volex now had an international

supply.

Volex had to become "a unified force" within the global market, Mr Chapple said, with its sourcing rationalised and with co-ordinated marketing initiatives. Then organic growth would follow. Mr Bill Goodall, chairman, added that Volex would still be looking to make another important strategic move - along the lines of the Mayor acquisition.

In cable assemblies, Pencon continued to henefit from leg-islation over the pre-fitting of plugs to electrical appliances In Europe sales grew to the personal computer industry but fell to the mainframe market. The US "stood still", said Mr Chapple, though the group was now also focusing on the medical sector which be expected would have a high growth rate.

Specialist cables and wiring harnesses performed less well though Volex Wiring Systems had now been restructured. Earnings fell to 10.5p

(11.2p). The interim divideod is unchanged at 6.5p.

Acquisitions Housing starts help Meyer to £19m behind 49% Recented to 10 569.1m (£138.4m). Gearing

MEYER INTERNATIONAL. the building products group, said yesterday that the fragile recovery in the UK housing market and thus the outlook for its own profits hinged on the Budget later this month.

"We would see a neutral budget as reasonably positive for our business," said Mr John Dobby, chief executive, as he reported a jump in interim pre-tax profits from \$8.5m to

Meyer was helped by the full benefit of a lower cost base after three years of cost-cut-Sales in the six months to

September 30 rose to £600.8m compared with £540.5m, stripping out a £17.7m contribution from Cadel, a plumbers' and heating merchants sold last

Meyer, which raised £70m in a rights issue in April, is holding its interim dividend at 4.2p, payable from earnings up at 11.3p (5.9p restated), and expressed cautious optimism about prospects: "We have seen a modest increase in demand in the first six months and we have seen that con-

ber to date." Mr Dobby said Meyer had been helped by housing starts climbing "steadily upwards" because of the "direct relationship" with its main product,

tinue in October and Novem-

He said prices had risen between 25 per cent and 3 per cent on an annualised basis after "many years" of falls, with the price of timber lifted a

124m (217.9m). The 191 strong Jewson builders' merchants

chain, which closed 11 branches last year, improved its contribution to £10.3m (£7.1m) on sales up at £215.1m (£209,4m). Meyer may add branches and

said bad debts in the division fell to 0.74 per cent (1.5 per cent) of sales. Profits in the forest products division were £8.4m (£6.1m) on

sales of £180.3m (£155.8m). In continental Europe profits were £6.5m (£5m) on sales ahead at £195.3m (£168.6m). US laminates delivered profits of £200,000 against last year's neutral contribution on sales ahead at £10.1m

£5m (£6.8m) as the rights funds helped reduce net borrowings

Net interest payments fell to

was 20.6 per cent (53.9 per

• COMMENT Loyal shareholders deserve some recovery after last year's dividend cut and stumping up for the rights issue which critics pin to the £63.4m net cost so far of Meyer's unhappier diversifications. The company is not alone in such mistakes and has some succes as Pont Meyer in the Netherlands and the US laminates business, to its credit. Taking the positive with the negative, analysts have upgraded fullyear pre-tax forecasts to between £39.5m and £41m giv. ing a range of multiples between 17 and 20 - in line with the sector. Buyers expect earnings growth on margin recovery.

Unilever puts a smile Cost cutting and rising output behind earnings surge at Lonrho SA

By Kenneth Gooding, Mining Correspondent

COST CUTTING and increased output belped boost income after tax at Lonrbo South Africa's platinum interests by more than 100 per cent in the year to end-September, from R27.8m to R56m (£8.75m). However, the fall in the price of rhodium, by 44 per cent from the 1992 average, hit cash flow so bor-

rowings increased by R80.4m to R807.910. Lonrho SA said that production of refined platinum group metals rose by 27.8 per cent to more than 938,000 troy ounces. Unit costs, from mining through to production of metals in matte, fell by 8.2 per cent to R19,807 a kilo, exclu-

WORLD

ACCOUNTING

REPORT

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ding a one-off cost of redundancies, and by 7.8 per cent to R19,990 including this

Turnover at the division, which takes in Eastern Platinum in Bophuthatswana and Western Platinum in the Transvaal plus Western's refinery near Johannesburg, rose by 10 per cent from R830.2m to

Net income, after an extraor-dinary item of R91.66m (R11m) associated with a reduction in deferred tax liability following a lowering of the tax rate, was R147.7m (R38.9m).

Lonrho said capital expenditure, excluding interest capitalised, was R100m and would be about the same this

WORLD ACCOUNTING

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authoritative monthly

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It reports and analyses:

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* Programmes, publications and policies of the main national and international accounting committees and regulatory bodies - including the IASC.

FEE, IFAC, OECD and UN. National and international developments in accounting

standards and practice from the viewpoint of the accountant in

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on Chinese faces with toothpaste venture

UNILEVER IS to set up a joint venture with Shanghai Toothpaste Factory in China for the production and marketing of oral care products.

Unilever will have a 60 per cent share in the venture - its sixth in China - which will employ 1,350 people.

Shanghai Toothpaste claims to be China's largest toothpaste manufacturer - producing more than 550m tubes a year - and with about S per cent of world production, is also the largest manufacturer in Asia.

Its brands Zhonghna (China) and Maxam are well known in China, while Maxam is also exported to several Asian and African countries.

With a population of over 1.2bn, the Chinese oral care market has substantial growth potential. Toothpaste is already widely used and there are significant opportunities as oral hygiene consciousness increases, prompted by educa-tional programmes aimed at

the predominantly young pop-Shanghai Toothpaste and Unilever will team up to utilise technological and marketing expertise to further develop the Chinese brands, together with Unilever's existing inter-national brands which will be introduced in China. Unilever's brands include Signal, Mentadent, Pepsodent and Close-Up. The transaction will be sub-

ject to the approval of the Shanghai authorities.

P&S News up 10% to £3.8m

Newspapers, the publishing, printing and retailing group, increased pre-tax profits, by 16 per cent from \$2.39m to £3.75m in the half year to September 25, on turnover 5 per-cent higher at £54.9m, against

All group companies improved profits apart from Portsmonth Publishing at Printing which suffered a further decline in its market place. In response to these poor interim is 3.12p (2.84p).

Portsmouth & Sunderland committees, PP&P closed a free newspaper, Streetlife, and also continued to reduce manpower electrices.

These actions resulted in rationalisation costs of £639,000 (£290,900). Excluding these costs, underlying profits before tax increased by 19 per cent. Earnings per share slipped to 20.20 (20.6p). In line with the board's infaution of paying an interim of about one third of the previous year's total, the

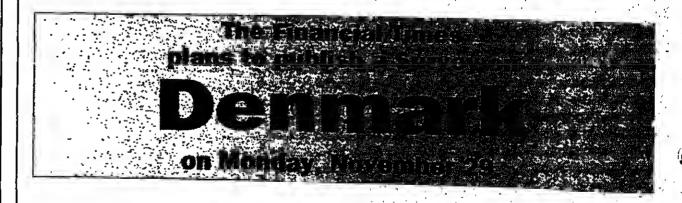
DIVIDENDS ANNOUNCED

Current Date of payment payment	ponding dividend	for year	last year
Afreces Dec 31			
Courteneds	3.8		14
Essex Waterint 39.1 Dec 16	36.8	-	75.4
Jarvis Porter	1.5	- ''	4.7
Land Securitiesint 6.6 Dec 17	6.3	-	22.85
M&G Recoveryint 0.867 Dec 10	0.85	-	3.82
Mover Inti	4.2	-	10
P&S Newspapersint 3.12 Dec 31	2.84		9.46
Prop Partnershpsint 2.6 Jan 12	2.55	-	7.25
Susfolk Waterint 23.3 Dec 16	23.7		47.5
VotexInt 8.5 Feb 7	6.5		17.85
Vosperint 5.3 Jan 8	4.7		15.8
Young & Co'sint 7.25 Dec 17	7	-	14.5

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FT Surveys



which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank belp if it is

and western nuclear scienus Mr Rémy Carle, chairman of

economy, supplies of other fuels and other factors over

In the Ukraine, unable and

the WANO governing board and deputy general manager of Electricité de France, told the

Dalgety in

talks to buy

BP petcare

business

By Deborah Hargreaves

DALGETY, the food and

agriculture group, is in talks with British Petroleum over

the purchase of its Paragon

Petcare business for between

£40m and £50m. The company

hopes to complete the pur-

chase within the next five

Paragon is one of the few remaining businesses in the

BP Nutrition division, which

the company put np for sale a

year ago. Paragon has sales of

£103m spread across Europe

and makes a profit, although

neither company would reveal

how much. Dalgety bolds a 25 per cent

share of the UK market with

its Spillers Petfoods group and

its main Winalot brand, with

roughly 8 per cent of the Euro-

pean market. "There are sev-

eral elements we find attrac-

tive . . . it will give us a much wider geographical

spread throughout Europe and

a management presence in Europe," said Mr John Martin,

Paragon has its headquarters in Bunnick, the Nether-

lands, with plants in the UK.

Germany and France. It will

also add to Dalgety's presence

Dalgety's finance director.

£2.9m boost from sale of investment properties

Land Securities edges ahead to £118.9m

By David Blackwell

LAND SECURITIES, the UK's biggest property company, yesterday lifted its interim dividend as pre-tax profits edged ahead to £118.9m for the six months to the end of September.

Tha outcome compared with a previous £116.5m. Earnings per share were ahead from 16.59p to 17.23p; the dividend is lifted by 4.8 per cent from 6.3p to 6.6p.

Excluding the £2.9m proceeds on the sale of investment properties, pre-tax profit was almost unchanged at £116m (£116.2m). Net rental income improved from £187.6m to £197m.

Mr Peter Hunt, chairman and managing director, said the results confirmed his view that, until rental growth fed through into higher rents, net revenue from the group's existing portfolio was likaly to remain flat.

He described the recovery as slow and fragile. Rents were continuing to fall in central London, hut increased enquiries and a falling level of high quality space suggested that "rental levels for the best property may be close to reaching a floor."

The group, which in May



Peter Hunt: described recovery as slow and fragile

raised £140m for new property investment through a convertible bond issue, spent or committed £70m on purchases during the six months. The biggest purchase was the Bridges Shopping Centre in Sunderland. At the end of September it had just over £295m of funds available for future acquisitions, developments and refur-

hishments.

Net interest payabla rose

Mr Hunt said the group had made considerable progress in reducing volds from ahout 4 per cent of the rent roll to 3 per cent, excluding vacant huildings held for future development.

The group would continue

The group would continue its policy of cutting the level of voids and overheads, rebalancing its portfolio with retail and industrial/warehouse acquisitions, and keeping its property

in branded dry petfoods with fts Beta product in the UK market where the agriculture company has not such a strong presence.

BP has sold its main nutrition businesses leaving a few peripheral companies active in fish farming and chicken

tion businesses leaving a few peripheral companies active in fish farming and chicken hreeding still to sell. Earlier this year, it sold Purina Mills, the largest supplier of animal feeds in the US, to the Sterling group, a venture capital organExit from fashion business will cost £6.5m and lose 300 jobs

Pittards to close clothing division

By Peggy Hollinger

PITTARDS. the learber company, yesterday accepted defeat in its four-year battle to stay in the fashion husiness with the announcement that it had decided to close its clothing division at a cost of £6.5m and 300 iohs.

The decision will leave Pittards with losses estimated at about £7m for the 1993 year and has cast doubt on the dividend payment. Pittards said it was unlikely to return to "a normal level of distribution" in light of the announcement. Pittards, along with its main rival Strong & Fisher, has been struggling to recover from the effects of extremely volatile sheepskin prices in the late 1980s. Strong & Fisher survived only after a rescue cash injection from Hillsdown Holdings, thefood group.

Mr John Buckley, finance director, said the costs of closing the Ahingdon factory, together with property writedowns and advance corporation tax write-offs, would result in an £8.5m reduction in

the group's net assets to \$22.1m. This would have forced Pittards to breach several of its banking covenants. However, these bad been waived after negotiations with the group's bankers.

Pittards has debt of £17.4m, leaving gearing at about 80 per cent. The redundancy programme would push gearing up to 90 per cent by the end of the year. Its hanking facilities are up for renegotiation in March.

Pittards first entered the

the acquisition of Garner Booth. The closure leaves Pittards with its original businesses of chamois leather, gloving leather and shoe and other leathergoods.

Mr Buckley said he was optimistic that Pittards would return a profit next year. The clothing division, which has returned losses for each of the last four years, is estimated to have incurred a deficit of about £1.5m for the 10 months of this year. Analysts are forecasting a return to profits of about £2m in 1994.

Aer Lingus workforce poised to take 5% equity stake

By Tim Coone in Dublin

THE 1250m (£47.2m) costcutting rescue plan for Aer Lingus, Ireland's state airline, appeared to have passed one of its final hurdles last night, after the Irish government agreed terms with unions for the workforce to take a 5 per cent equity stake in the company in return for a two-year

pay freeze.

The equivalent of a further 5 per cent stake will be paid in cash if the airline returns to

Mr Paul O'Sullivan, the principal union negotiator, said:
"Workers have achieved a major breakthrough... and secured a strategic stake in Aer Lingus. This is also a first in European national airlines. Aer Lingus workers will immediately become real shareholders in the company and be able to influence its strategic direction."

tion".

Earlier this month, SIPTU, the trade union representing the majority of the airline's

5,500 workforce, accepted payroli cuts amounting to I221m and "radical" changes in work practices, involving 800 voluntary redundancies.

Agreement had not heen reached, however, on pay awards for the coming two years, and it was decided to refer this matter to arbitration. A trihunal ruled last week that there should he a pay freeze for two years, but which would be softened by an I£2m fund to be distributed to the workforce in 1995 on condition

that payroli cost-cutting targets are met.

SIPTU was unhappy with the ruling and decided to suspend a hallot of its members on acceptance of the overall rescue package until the government improved an offer to give a 5 per cent equity stake in the

airline to the workforce.
SIPTU had earlier demanded
15 per cent; one of its officials
pointed out: "This is far less
than the 45 per cent stake that
has been given to the work-

The negotiations with the government were handled by the Irish Congress of Trade Unions, which views the outcome of the negotiations as creating a yardstick for rationalisations and pay awards in mor

Telecom Eireann, which are being groomed for eventual privatisation.

The first £75m tranche of a £1.75m equity injection by the government is due to be made in December, but is conditional both on acceptance of the rescue package by the workforce, and approval by the European Commission. The injection is

other state enterprises, such as

Commission. The injection is required to fund restructuring of the airline and the voluntary redundancles, some of which are already taking place.

The airline's rivals on the intensely competitive Duhlin-London route are opposed to any of the equity Injection being used to set up a new low-cost, no-frills service on

the route, and are lobbying

intensely in Brussels to block

Nationwide buys £24m mortgages

By Alison Smi

Nationwide, the UK's second largest building society, said yesterday that it had bonght the National Bank of Canada's mortgage book.

Purchase of the mortgage portfolio, worth £24.1m, marks the bank's departure from the UK mortgage business, which it entered in 1988. Neither the baok nor the Nationwide would reveal the price that

had been paid.

The portfolio will be managed by Nationwide Home Loans, a wholly owned subsidiary of the building society, bringing its assets to £147m. The society itself has assets of over £34bn.

National Bank of Canada said that it had sold the mortgage hook because its core business was in treasury and corporate matters rather than on the retail side.

In Angust, the bank reported a strong recovery for the third quarter and nine months.

Bowthorpe's \$21m expansion

By Paul Taylo

BOWTHORPE, the international electronic and electrical components group, has strengthened its environmental monitoring instrument operations with the acquisition of Colorado-based Lear Siegler Measurement Controls for \$21m (£14m) cash.

The instruments manufactured by the company are mainly used to measure dispersed gaseous pollutants outdoors and the opacity of emissions from industrial

BANNER HOMES, the Buckinghamshire-based

from the USM to the main market.
The cash call is of 3.61m new shares at 89p,

fully underwritten by Charterhouse Bank, on a 2-for 7 basis. Brokers to the issue are Charter-

The money raised will enable Banner to

"finance its plans based on its strong land position." It will also help to reduce

Mr Stuart Crossley, chairman and chief executive, together with connected interests, cur-

rently own 10.1m shares - or 79.8 per cent of the

housebuilder, yesterday called for £2.9m via a rights issue and also announced plans to move

himneys. Commenting on the acquisi-

house Tilney Securities.

52°

tion, Mr John Westhead, Bowthorpe's chief executive, said: "This business will fit extremely well into Bowthorpe's data acquisition and

environmental sector."

Bowthorpe's data acquisition and environmental operations already comprises six companies which bring together US and UK-based expertise in electronic data gathering and monitoring for environmental, advanced. research and aerospace applications.

aerospace applications.

Lear Siegler Measurement controls, which is based in Englewood, Colorado, is a wholly owned subsidiary of ment.

Banner seeks £3m and full listing

Lear Siegler and is a leading designer and manufacturer of gaseous pollntant monitoring instruments and integrated

The net assets being acquired by Bowthorpe were valued at \$4.5m at the end of June. For the year to June 30, Lear Siegler reported a loss of \$300,000 on turnover of about \$30m.

The business is now trading

profitably.
Under Bowthorpe the business will operate as Monitor
Labs, but will continue to be
run by its current manage-

equity. In addition to the money raised, they are to place their rights entitlement, amounting to 2.88m shares, with institutions, leaving their

interest in the company at 62.1 per cent.

The move to a full listing is expected to take

Banner now owns or controls 38 sites with potential for building 800 units. Its target is to complate some 70 units in the year ending March 31 1994 and to increase this to about 150

. The group currently manages two BES housebuilding companies and holds a 10.7 per cent

it has entered into a put and call option to acquire all of the assets and liabilities of the two companies in April 1995.

effect from December 13.

units by end-March 1995.

Specialised Financing



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Company Limited

leveraged acquisition

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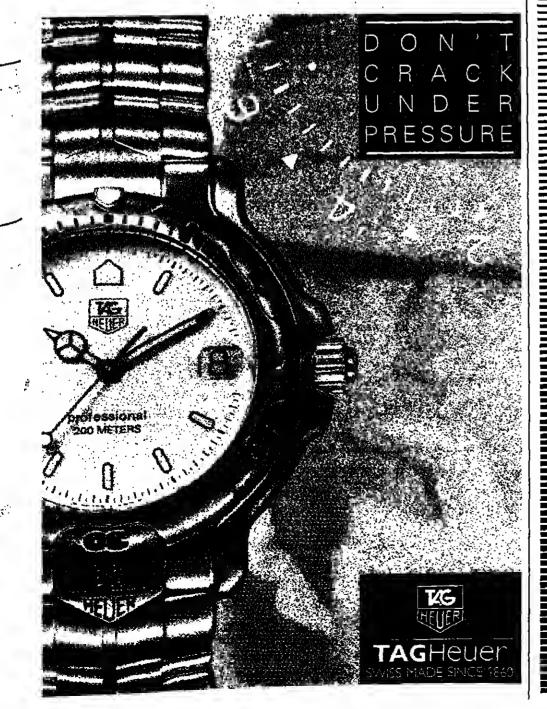
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Courtaulds defends core Youngs activities' performance By Paul Abrahams SIPKO Huismans, Courtaulds' ebullient chief

executive, yesterday strongly defended the performance of his main divisions

"I'm in very good heart about our core businesses which are in fine fettle. But we are a chemical company and it's tough out there. We defied the recession for a couple of years, but if we could walk on water we'd be called something different," he said.

The coatings division reported operating profits down from £28m to £27m on sales of £390m (£354m). The fall in profits included a £7m charge for restructuring Mr Huismans said the division had 18 manufacturing plants in North America and Europe, and he expected those to be reduced by a third. He stressed the UK remained

the group's favourite location for manufacturing in Europe. "Germany provides an outmoded socialist environment. That country has a long way to go to reach the efficiency levels of the UK," he said.

Performance materials registered trading profits up from £7m to £13m on sales of £120m (£94m) Sales and profits benefited strongly from the light armoured vehicle contract which is now being completed. The difficulties in the civil aviation and defence industries held back demand for aerospace sealants and coatings.

Packaging operations generated operating profits up from £7m to £9m on turnover of £80m (£67m). Sales of tubes grew at 20 per cent, while profits from rigid packaging improved on unchanged turn-

FENCHURCH, the insurance broker.

yesterday finalised its flotation, pricing

the shares at 180p, which will capitalise

A placing and offer for intermediaries by

James Capel, the securities house, will

A total of 9.38m shares have been placed

firm with institutions and a similar num-

By Richard Lapper

the company at £63m.

raise some £20.4m net.



Sipko Huismans (left) with finance director Michael Pragnell: in good heart about the core businesses which are in fine fettle

over. The chemicals division reported trading profits down from £19m to £14m on lower sales of £108m (£99m). Profits in acetate filter fell from midsummer as a buying freeze in China upset the international balance of supply and demand.

The fibres and films husisses generated trading profits down from £31m to £28m. on turnover up from £306m to

The credit squeeze in China also hit the European acrylic fibre market and in the US, the viscose market was affected by

mediaries offer.

rporation ("New Line"), and Chemical Bank, a bunking co

System, Inc. ("TBS") with merge with and into New Line (the "Merger") and New Line will become a wholly-owned subsidiary of TBS.

Flotation puts £63m tag on Fenchurch

ber have been placed subject to recall to

satisfy valid applications under the inter-

On the basis of earnings per share for

the 12 months to September 30 1993 of 11.2p (or 10.7p on a fully diluted basis), the

price puts Fenchurch on a multiple

of 16.1, or 16.8 on a fully diluted

cburch Underwriting Agency, effective

NOTICE OF MERGER

NEW LINE CINEMA CORPORATION

6-1/2% Convertible Subordinated Debentures Due 2006

York, as Fiscal Agent (the "Fiscal Agent"), under which New Line has issued \$30,000,000 aggregate principal amount of its 6-1/2% Convertible Subordinated Deventures

TBS (the "TBS Class B Common Stock") (subject to appropriate adjustment in certain events). Consummation of the Merger remains subject to New Line stockholder

approval and certain other customary conditions. A special meeting for New Line stockholders will be held for the purpose of seeking such approval (the "Special

Meeting"). The date of the Special Meeting has not yet been determined but is presently anticipated to be held as early as the week of December 27, 1993, and in any

event by no later than February 28, 1994. New Line will publicly announce the date of the Special Meeting once it has been determined. Assuming that New Line

stockholder approval is obtained at the Special Meeting, the Merger is expected to become effective on or about the date on which the Special Meeting is held (the

U.S.\$16.875 aggregate principal amount of securities per each share of New Line Common Stock. As a result of the Merger, the Securities will become conventible into shares of TBS Class B Common Stock. Based upon the current Conversion Price, following the Effective Time the Conversion Price will be adjusted so that the Securities

will be convertible at the option of the holder into shares of TBS Class B Common Stock at a price equal to U.S. \$17.51 aggregate principal amount of Securities per each share of TBS Class B Corumon Stock. As of November 4, 1993, the closing price per share of New Line Corumon Stock was \$34.75 and the closing price per share of

TBS Class B Common Stock was \$26.875 per share. Because the market prices of the New Line Common Stock and the TBS Class B Common Stock are subject to

fluctuation, they may increase or decrease prior to the Merger. Holders of the Securities are urged to obtain current market quotations for such shares.

Neither New Line nor TBS is making any recommendation as to whether holders should convert, hold or sell their Securities.

The Securities are currently convertible at the option of the holder into shares of New Line Common Stock at a price (the "Conversion Price") equal to

IMPORTANT INFORMATION

Certain United States Federal Income Tax Consequences of the Merger to Holders of Securities, A conversion of the Securities prior to the Merger into New Line

Securities that are outstanding at the time of the Merger will automatically become convertible into shares of TBS Class B Common Stock, and no gain or loss will

The United States federal income tax discussion set forth above is included for general information only and may not apply to particular categories of helders of

ies subject to special treatment under the United States federal income tax laws, such as foreign holders and holders whose Securities were acquired as

Procedures for Conversion of Securities. Holders of Securities who desire to convent Securities may do so by the following conversion procedures which are more explicitly set forth in the Fiscal Agency Agreement and the Securities. Such Securities must be surrendered together with (a) if a beautr Security, all unmentured coupons and any matured coupons in default pertaining thereto, and if a registered Security (a "Registered Security"), instruments of transfer in form satisfactory to New Line and

In the case of a conversion of a Registered Security after the close of business on a record date next preceding any interest payment date and on or before the opening of business on such interest payment date, the holder of record of such Registered Security at such record date will receive an installment of interest on the interes

ent dare. No payment or adjustment will be made on conversion for dividents, if any, on the New Line Common Stock delivered on conversion. The next scheduled

Provisions for Redemption of Securities. The terms of the Securities provide for the right of holders to require New Line to purchase their Securities in the event of

The Securities are not redeemable by New Line before November 15, 1993, and thereafter are not redeemable by New Line before November 15, 1994 unless the

entiment for conversion. No fractions of shares or scrip representing fractions of shares will be issued or delivered on conversion, but instead of any

date on which interest is payable pursuant to the terms of the Securities is November 15, 1993, to bolders of record on October 31, 1993. Except as set forth in the first

entence of this paragraph, accrued interest from the immediately preceding interest payment date until the date of conversion will be paid to the holder within two

"change in control" (as defined therein). The Merger will not constitute a "change in control" (as defined in the Securities) and, accordingly, no optional

Closing Price (as defined in the Securities) of the New Line Common Stock exceeds 150% (the "Triggering Price") of the then effective Conversion Price for at least 20

trading days within the 30 consecutive trading days ending on the fifth trading day prior to the date that notice is given by New Line of its election to redeem the Securities as provided in the Fiscal Agency Agreement and the Securities. Based upon the current Conversion Price of U.S. \$16.875 (U.S. \$17.51 as adjusted pursuant to the terms

of the Securities for the effect of the Merger), the Triggering Price is U.S. \$25,3125 per share of New Line Common Stock (or, following the Merger, U.S. \$24,398 per

share of TBS Class B Common Stock). As of the date of this Notice, the Closing Price of the New Line Common Stock had not exceeded the Triggering Price for the

Additional information. Questions regarding the Securities or the procedures for conversion should be addressed to: Chemical Bank, 450 West 33rd Screet, New

Common Stock would be a lax-free transaction for United States federal income tax purposes. The subsequent exchange of such New Line Common Stock for shares of TBS Class B Common Stock pursuant to the Merger would also be a tax-free transaction for United States federal income tax purposes (except for cash received in lieu of

be recognized solely as a result of such modification. Nevertheless, any holder who converts Securities after the Merger into shares of TBS Class B Common Stock would

receive such shares of TBS Class B Common Stock in a taxable transaction under the United States federal income tax laws. Gain or loss would be recognized to the

compensation. In addition, there may be relevant foreign, state, local or other tax consequences, more of which are described above. Holders of securities are urged to consult their tax advisors to determine the specific tax consequences of the transaction, including the applicability and effect of foreign, state, local and other tax

the Fiscal Agent, duly executed by the registered holder or by such holder's duly authorized anomey and (b) the conversion notice contained in the Security duly executed (i) at the Corporate Trust Office of the Fiscal Agent, Chemical Bank, 450 West 33rd Street, New York, New York 10001, or (ii) at the offices of Chemical Bank.

extent of the difference between the holder's tax basis in the Securities and the fair market value of the TBS Class B Common Stock at the time of the exchange.

New Line has entered into an Agreement and Plan of Merger, dated as of October 15, 1993, pursuant to which a wholly owned subshifting of Turner Broadcast

Upon the consummation of the Merger, each outstanding share of Common Stock, par value \$0.01 per share, of New Line (the "New Line Common Stock"),

ling on the effective dute of the Merger will be converted into the right to receive 0.96386 of a share of Class B Common Stock, per value 50.0635 per share, of

This Notice is given pursuant to the Fiscal Agency Agreement, dated as of November 14, 1891 (the "Fiscal Agency Agreement"), between New Line Cinema

After adjusting for the demerger of Fen-

The company announced a reorganisation of its business areas from five divisions to three. The new divisions are coatings and sealants, fibres and chemicals, and polymer

Under the new organisation coatings and sealants reported operating profits of £32m (£33m) on turnover of £443m (£401m); polymer products posted trading profits of £18m (£10m) on sales of £184m (£147m), and fibres and chemicals registered operating profits of £41m (£49m) on turnover

bolstered by interest rate cuts

By Graham Deller

LOWER INTEREST rates helped Young & Co's Brewery, the south London-based real ale brewer, report a 5 per cent increase in interim profits.

Despite reduced turnover of £36.1m (£37.4m), reflecting difficult trading conditions there were no signs of recovery, the company said - the pre-tax line for the six months to September 25 edged ahead to £2.58m, against £2.45m, struck after gains of £23,712 on asset sales. Interest payable dropped to

£1.35m (£1.7m). Heavy interest charges have held back the group's growth in the 1990s as It funded the purchase of new pubs and expanded into hotels.

Export markets showed signs of improvement. The US side was doing "very well", the company said. A substan-tial drive into Hong Kong and China would begin soon, initially with the group's lager hrands.

The UK, in contrast, continued to suffer from recession. The introduction of Catmeal Stont into some 60 ontlets, however, had performed

"beyond expectations".

The product developed an "enormous following" in the US following its introduction there in 1989 and a more general release into the gronp's UK estate was anticl-

After tax of £901,464 (£808,826) earnings per 50p share emerged at 12.52p, np from 12.27p last time. The interim dividend goes

from November 16, the multiple falls to

Of the money raised, £15.3m will be used

to repay bank and other debt assumed at

the time of the management buy-out in 1989; £4.1m will be used to redeem prefer-

ence shares, while the balance will provide

The directors believe the listing will

enhance the profile "with clients and in

14.1, or 14.7 fully diluted.

additional working capital.

Vosper to boost acquisition level

VOSPER Thornycroft Holdings, the shipbuilding and engineering group, intends to increase the size and frequency of acquisitions, with a view to lessening its dependency on warship orders.

The Southampton based company reported a 10 per cent increase in pre-tax profits to 29.08m in the six months to October 3.

Sales rose by 27 per cent to £114.6m, of which 84 per cent is Mr Peter Usher, chairman,

said the group had so far been justifiably cautious on making acquisitions, having purchased husinesses for about £1m each. However, he was now prepared to buy one or more businesses at about the £20m level, if and when suitable candidates were

dentified. Mr Martin Jay, managing director, said about 15 per cent of sales were already not connected to warship orders. which could be erratically phased, although some of this work was still defence

related. The group had cash balances of £137m at the half-year, although the total was inflated by the receipt of a large stage payment for work in hand. The underlying cash position is about £60m

The order book of work yet to be performed is worth more than 2600m, with over 95 per cent for export.

Mr Ueher said he looked forward to tendering for the next batch of Royal Navy minehunt-

"Despite uncertainties over the level of UK defence expenditure, we are encouraged that the minister for defence procurement stated last month that the Royal Navy needs more single role minehunters." The group has completed an

sam investment programme in shipbuilding facilities. in preparation for the Common New Frigate which is foreseen for the Royal and European navies, the company has also become partners in a bidding team for the project with

GEC and British Aerospace. Earnings per share increased by 10 per cent to 19.6p (17.8p). while the interim dividend is lifted by 13 per cent to 5.3p

Jarvis Porter helped by purchases

By Paul Taylor

ACQUISITIONS HELPED Jarvis Porter, the specialist label printer for the spirits, toiletries and pharmaceutical industries, report an 84 per cent increase in interim

Pre-tax profits grew to £3.42m (£1.85m) in the six months to August 31. Earnings per share increased to 7.2p (5.1p); the interim dividend goes up to 1.65p

The shares, which have risen steadily in the past year, yesterday gained a further 7p to close at a new high of

The growth in profits was fuelled by higher turnover and a small increase in margins. Turnover increased by 71 per cent to £28m (£16.4m), including £3.67m from the acquisition of two self-adhesive lahel producers, Dolphin in Lewis and Irwin Packaging in Cardiff, in March Overall, Mr Richard Brewster, chief

executive, said recent acquisitions, including those made last year, accounted for about £10m of first-half turnover.

Operating profit increased by 92 per cent to £3.54m (£1.84m), including £373,000 attributable to Dolphin and Irwin. Excluding acquisitions profits increased hy about 10 per cent.

While the core label production business achieved "creditable results through addi-tional husiness and improved efficiencies," the group's promotional print business John Quarmby in the UK and Waterlomat in Brussels, which both produce beer mats, also performed well.

Despite paying 24 6m in cash for Dolphin and Irwin and assuming £1.5m in debt, the group ended the period with net debt of just £900,000, equivalent to gearing of 5 per cent, compared to net cash of £3.2m at the

end of February.

Mr Brewster said the group is considering further acquisitions, particularly in

Creditors approve scheme of arrangement for Kwelm

CREDITORS yesterday approved proposals for a scheme of arrangement under English insolvency law for the Kwelm insurance companies by a significant margin, paving the way for an exit from provisional liquidation at the end of the year.

Mr Chris Hughes, bead of insolvency at Coopers & Lybrand and one of the provisional liquidators, said creditors had voted "overwhelmingly in favour" by both a meeting in Alexandra Palace

in London. An estimated 200 creditors turned up to vote, and by Monday evening this week Mr Hughes had already collected proxies in favour from credi-tors owed \$3.1bn (£2.09bn). Those against were valued at

Total creditors' claims are estimated at above \$60n, and the schemes must be approved by three quarters of creditors by value.

The approval for an exit into a scheme of arrangement will require ratification by the High Court in London on December 8, followed by similar approv-als in Bermuda and then in the New York courts on December

Mr Hughes said he hoped to be able to offer a first dividend to creditors by the end of June next year, estimated at between 3 per cent and 12 per cent for the different compa-

All the Kwelm companies are subsidiaries of London United Investments, the insurer now in administration. They are Kingscroft, Walbrook, Lime Street and Mutual Re.

trust's first half dipped to

£277,000 (£320,000) for enarrings

Allied London Properties has

acquired for £34.4m a portfolio

of six investment properties

from Provident Mutual in

exchange for properties valued

Rental income from the prop-

IL AIR

erties, which comprise a mix-ture of office, industrial and

rental income from properties

given in exchange is £2m, so

rental income, directors

pointed out, will increase by

at 221.6m, plus 212.8m cash

of 0.71p (0.91p) per share.

Allied London

property buy

creditors to get payment By Andrew Jack

Andrew Weir

Creditors to Andrew Weir Insurance, which is in provisional liquidation, can ulti-mately expect to receive 50n to 60p in the pound, according to details of a proposed scheme of arrangement under English insolvency law circulated this

A summarised balance sheet for the year to December 31 1992 showed estimated assets of £111.1m, against liabilities of £142m.

The document said that Weir had gross reserves of £122.6m and estimated that additional gross reserves for environmen-tal pollution, might be \$62m

An initial pay-out to creditors is likely to be about 15

The scheme of arrangement has been proposed by Mr Richard Boys Stone and Mr Colin Bird, parmers with Price Waterhouse and the provisional liquidators to the company.

Instinet purchase

Instinct Corporation, the electronic brokerage subsid-Barclays De Zoete Wedd, the investment banking division of Barclays, has acquired BZW's Thamesway Investment Services.

of #S\$ 2LG

By Andrew Jack

number and value of claims at

Moran cuts

MORAN Holdings, the

USM-traded tea producer,

freight forwarder and property

developer which came out of

administration in July, cut Its

annual losses from £2.1m to

record profits from the

freight forwarding division

and "substantially" better

results from the Indian tea

Group turnover for the 12

months to June 30 advanced

from £36.7m to £45.9m. Interest

charges were cut to £410,000

(£563,000) and losses

per share emerged at 16.64p

In the High Court in July the

edministration order was dis-

charged following a rescue package being approved by

BZW Securities is inviting bids

for the shares it has agreed to

respect of the enhanced scrip

dividend alternative of BTR,

the industrial holding com-

It is intended to sell the

shares - which will have a

Huntleigh purchase

Huntleigh Technology is pay-

Evans, a maker of medical

funded by the raising of £9m

The placing will be of 2.14m.

new shares at 420p each, with

the balance being financed by £1.6m cash and the issue of

The purchase will be partly

and £9m placing

equipment.

via a placing

value of about £48m - through

BTR to auction

£48m of shares

The improvement reflected

losses to

£274,000 pre-tax.

company.

£274,000

NEWS DIGEST

871,000 of 4 per cent (gross) guaranteed unsecured loan notes 1994-99. Huntleigh said the acquisition of Nesbit will broaden its product range and market penetration, as well as providing new opportunities in overseas

Nesbit made pre-tax profits of £1.21m on turnover of £23.63m in the year to June 27.

markets.

Atreus 21% ahead at £551,000

Atreus, a shower screen and mirror supplier, achieved a 21 per cent increase in pre-tax profits from £456,000 to £551,000 for the half year ended September 30. Turnover improved by 17 per cent to £3.78m.

The company came to market in March following a reverse takeover of URS International. It is paying a maiden interim dividend of 0.264p from earnings of 1.02p (0.85p) per

Property Partnerships lower

For the half year ended September 30, Property Partnerships, the commercial property owner and developer; turned in lower pre-tax profits of £994,000, compared with

£1.01m. After tax of £293,000 against £335,000, earnings per share were 6.5p (6.31p). The interim dividend is increased from 2.55p to 2.6p. Gross rental income and

sales fell slightly to £3.19m (£3.38m) and operating profits were behind at £1.08m (£1.11m).

F&C German net asset value at 137p ing £11.5m to acquire Nesbit

Foreign & Colonial German Investment Trust had a net asset value of 137.2p per share at September 30, up from 1215p at the March year-end and 105.2p at end-September

Attributable revenue for the

£1.8m a year. Date adversionment is instead by Chestechnere Dank Limited, which is a member of the Second Privace Authority, in compliance with this requirements of The International Stock Excel the United Kingdom and the Republic of Sechael Limited ("the Louison Stock Exchange does not constitute an office of we largisate to the public to authorithe for or to provide BANNER HOMES GROUP PLC Proposed 2 for 7 rights issue of up to 3,612,244 new ordinary shares of 10p each at 89p per share Introduction to the Official 7 Set sored by Charterhouse Bank Limit St Paul's London SCHM 7DH

Forex or Futures prices from £49 per month For 39 second updates an your Windows PC Screen or Pocket Financial Monitor call 0494 444415 QuoteLink from SPRINTEL

YORKSHIRE BUILDING SOCIETY

£165,000,000 Floating Rate Notes Due 1994

1997 remobilised and forming a ung

tion retrievaly 1994 the Notes will carry a rate of interest of 5.725 per text. per aroun. The relevant laterest payment date will be 17th February 1994. The coupen amount per £50,000 Note will be £721.51 payable agents surrouder of Coupen Not 20.

In accordance with the terms and conductus of the Notes, notice as bereby gives that for the three promise naturest period from (and including) 17th November 1993 to (but controlling) 17th February 1994 the Noors will carry Hambros Bank Limited

ing £100,000,000 Floating Rate

Notice of Interest Rates

To the Holders of

The United Mexican States Collateralized Floating Rate Bonds Due 2019

NOTICE IS HEREBY GIVEN that the interest rates covering the interest period from November 17, 1993 to May 17, 1994 are detailed below:

Series Designation Rate USD Discount Series C 4.3125 Pct. P.A. USD 21.68 CAN Discount Series 5.3125 Pct. P.A. Per USD \$ 1,000 CAN 26.71 May 17, 1994 Per CAN 1.000 November 17, 1993 CITIBANK, N.A., Agent

ITSUL

York, New York 10001.

requisite number of days to permit redemption.

Chemical Bank House, 180 Strand, London WC2R 1EX, England



fractional interest a cash adjustment will be paid as provided in the Fiscal Agency Agreement and the Securities.

which involve the construction of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is

NEW LINE CINEMA CORPORATION

and western nuclear scienuses: - grown Mr Rémy Carle, chairman of the WANO governing board the WANO governing board

And the second s

to proceed. In the Ukraine, unable and

and deputy general manager of Electricité de France, told the little control Andrew: crediton

get pay



Over the last 5 years we've helped millions to emigrate to Europe.

As European issuers look for increasingly efficient and cost effective ways to raise capital, more and more are discovering the difference that Merrill Lynch can make.

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Inco sees nickel market heading for deficit

By Kenneth Gooding, Mining Correspondent

EVIDENCE IS building that points to a big cut in Russian nickel production and exports. This has lead inco of Canada, the largest western producer. to claim that nickel supply and demand are virtually in balance this year and the market is heading for a deficit in 1994. Sumitomo Metal, Japan's leading nickel producer, has publicly predicted that Russian nickel exports to the west will plunge by 35 per cent to 85,000 tonnes this year from an esti-

mated 130,000 tonnes in 1992. Mr Mars Altibaev, logistics manager for Norilsk of Russia, the world's biggest producer. joined the debate yesterday when be told a Metal Bulletin conference in Florida that his country's nickel exports in 1993 and 1994 would be no more than 90,000 tonnes each year. He suggested that Norilsk's output this year would be at least 20,000 tonnes below recent western estimates of 230,000 tonnes.

The International Nickel Study Group estimates that world nickel production fell by

70,900 tonnes or 11 per cent in the first nine months of 1993. to 581,300 tonnes, and that most of the drop occurred in the Confederation of Independent States. The INSG calculated production in the CIS nlunged by more than 30 per cent, by 57,000 to 126,000

tonnes, in the nine months. Inco "guestimates" that Russian production will be flat at about 180,000 tonnes in 1994 and that in the first quarter of next year world demand will exceed supply by 50m lb (22,686

"I believe the stories we hear

from all quarters, including Norilsk, of reduced Russian production are correct," says Mr Peter Salathiel, Inco's executive vice president of market-

^{*}Mining problems abound, essential equipment and supplies seem to be lacking. The result is an involuntary production cut of truly staggering tonnes or 265m lb in two years. As for Russian exports, Mr Salathiel suggests that supply to the west of "backdoor" - or dropped sharply this year since

state the allocation system for Russian consumers. Previously some customers were export ing nickel illegally in order to survive a big fall in domestic consumption. "Knowing its customers, Norilsk has been better able to match deliveries with customer requirements and hence the supply of backdoor nickel has been sharply

reduced." says Mr Salathiel. He suggests that total imports of Russian nickel to the wast will fall by 40,000 tonnes to s "miserly" 80,000 tonnes next year.

on the incident from Shell, but

able until the underwater

Bad weather and water

depth of 280m had made the inspections of the storage tank

a final report will not be avail-

vehicle's inspections are com-

agreement on EC fraud curbs

EUROPEAN COMMUNITY farm ministers yesterday broadly agreed measures to reinforce controls on subsidised exports to prevent fraud, Belgian farm minister Andre Bourgeois said, reports Reuter

from Brussels. "Ministers achieved virtual nnanimity. . . they just need to finalise the text," added Mr Bonrgeois, whose country is the current holder the EC presideucy, after a meeting of the community's agriculture coun-

Under the plan officials would be given flexibility to concentrate inspections where the risk of fraud was greatest. They would be required to inspect 5 per cent of all subsidised exports, instead of 5 per cent in each product sector as Customs officials at EC

frontiers would also check a certain volume of exports cleared in the interior to safeguard against substitution of

"It's a confidence building measure for member states and for the public," the Belgian minister said. The ministers will discuss the issue again at the next agriculture council, which is

scheduled to start on Decem-

Ministers in RTZ to spend \$500m at Utah copper complex

RTZ CORPORATION, the world's biggest mining company, is to spend US\$500m over five years to expand and upgrade tallings (waste) facilities at its Bingham Canyon copper complex in Utah.

This takes RTZ's financial commitment at Bingham to \$1.4on as it has already started a \$880m project to build a new smelter that will take annual copper output from 155,000 to 272,000 tonnes and use up all production of concentrate (an intermediate material). At present Bingham sells 50 to 60 per cent of its concentrate.

Also, Kennecott, the RTZ subsidiary that operates Bingham, recently finished an expansion of the concentrator costing \$219m. Kennecott is the third-largest copper producer in the US, with about 15 per cent of the nation's supply. The tailings expansion will eventually cover 4,100 acres and is designed to provide waste storage for Bingham for the next 25 to 30 years. Kennecott hopes permits will be awarded in time for construction to start early next year. which will enable the project to be completed in 1998.

Newmont Mining, North

America's biggest gold pro-

ducer, has reached agreement for a group of international banks to provide US\$105m for its heap leach joint venture near the Muruntau mine in Uzbekistan, the biggest open pit gold mine in the world. The European Bank for Reconstruction and Development will provide half the money and a group of 13 commercial banks are putting up the rest. EBRD said this was the first mining project finance it had provided, it was the first syndicated financing for the former Soviet Union and the first limited recourse private sector loan for Uzbekistan in

any of the capital markets. Newmont estimates the cost of the project, where its heapleach technology will be used to extract at least 5m troy ounces of gold from old waste dumps at Muruntau over 16 years, will be \$150m. Produc-tion at the so-called Zarafshan-Newmont joint venture is scheduled to start in early 1995 at the rate of 450,000 ounces a year. Annual output over the life of the project is forecast to

average 310,000 ounces. Newmont's joint venture partners are Uzbekistan's state committee of geology and min-eral resources and the Navoi Mining and Metallurgical Combinat, each with 25 per cent.

Norske Shell says leaking tank shut down platform

By Karen Fossii in Oslo

NORSKE SHELL, the Norwegian subsidiary of the Royal/Dutch Shell group, disclosed yesterday that two small holes in one of seven storage tanks of the NKr2bn (£180m) Draugen concrete oil platform had caused an estimated 1m tonnes of crude oil

to leak into the Norwegian Sea. The leak was discovered late on Sunday and production of 20,000 barrels a day was shut down for a period of 36-hours. Shell said that it had deployed the Seaway Condor diving ves-sel, which is equipped with a remotely-operated underwater robotic vehicle, to make video recordings of the leaking areas of the storage tank.

Turkmenistan, the gas-rich Ceotral Asian field, in western Turkmenistan, with known republic, has awarded two tenders to western reserves of 35m tonnes. companies to explore and develop some of its oil-fields, one to Occidental Petrolenm of the US and another to a US-Turkish consortium. Interfax news agency reported yesterday, writes

Occidental was reported to have paid a bonus because interested cor of more than \$20m to develop the Burun oil to prepare their bids.

The holes in the tank had not sffected the structural integrity of the oil platform. Shell said, sdding that safety of the platform was not endan-

The company said that there had still been s small otream of crude oil leaking from the tank

The concrete, single tower platform was constructed by

Norwegian Contractors - a subsidiary of Norway's Aker group - which has contributed to the membership of a fourman team established by the two companies to determine a course of action to repair the tank.

NC has huilt 15 concrete platforms over the past 20 years - including the Sleipner

west Norwegian Gands fjord in August 1991.

A consortium called Oil Capital-Lapis Hold-

ing won the right, paying a bonus of \$30m, to develop offshore reserves in the Caspian Sea. A

tender for another oil-field, Barsa-Gelmez with

reserves of 31m tonnes, was not awarded

Aker's shares were little affected yesterday on the Oslo bourse by the disclosure. A-shares closed down NKr0.50 to NKr85 and B-sbares lost NKr1.50 to NKr92.

The Norwegian Petroleum Directorate, the country's oil industry watchdog, yesterday received a preliminary report

because interested companies needed more time difficult, but not impossible, Shell said. The leaking tank has been drained of oil and re-filled with weter. Draugen's seven seabed

tanks have capacity to store 1.4m barrels of oil, or ebout 11 days' production. The platform came on

stream on October 19 and is expected to achieve a plateau production rate of 90,000-95,000 barrels a day in the middle of next year.

India expects cotton crop close to last year's record

By Kunal Bose in Calcutta

INDIA EXPECTS to harvest another bumper cotton crop of 13.5m bales (170kg each) during the season that began in September, only marginally down from last season's record.

"A 13.5m bale crop is only the beginning of the season forecast," said an official of the Eastern India Textile Milts Association, "As has always been the case in the past the crop estimate will keep changing as the season progresses. Last year, the initial crop estimate was only 12m bales. But we finally ended up with a record production of 13.6m bales. All this happens because the country so far has not been able to develop a reliable crop

According to the government-owned Cotton Corporation of India, among the major cotton growing states in the country, Maharashtra is expecd to record an output rise

will be a major crop loss of over 450,000 bales, to 1.8m. in Gujarat, where large areas suffered drought.

The cotton crop will be maintained in other major centres, like Punjab, Haryana, Andhra Pradesh, Karnataka and Tamil Nadu. The quality of the crop is reported to be satisfactory. As India opened the season with comfortable stocks of nearly 3.3m bales and it is beading for a bumper crop, the government bas announced the first instalment of export quota of 500,000 bales for 1993-94. Last year the country exported 1.3m bales out of total sanctioned quota of nearly

India releases cotton exports in stages, depending on the progress of the harvest. This policy attempts to ensure remunerative prices to growers

hya Pradesh's production is projected to be 200,000 bales higher at 1.2m. However, there non-mill consumption 800,000 expected to be 11.5m bales and non-mill consumption 800,000

> The organisations of growers and traders have found in the agriculture ministry a champlon of freedom of cotton exports. According to the parliamentary committee on agriculture, the ad hoc export policy is not farmer-friendly and India should remove all controls on cotton exports. The committee believes there is scope, through improved productivity, to increase exports to 2m bales a year, india manages an average yield of only 270kg a bectare, compared with the world average of 600kg. According to the Interna-

tional Cotton Advisory Committee, cotton export prices in the current season are likely to remain below average, even though imports are projected to increase by 200,000 tonnes to 6.1m tonnes. Latin American importers are expected to 250,000 bales to 2.3m and Mad tile mills, indian mill consump account for most of the rise.

Protecting Earth's life-support system

UN scientists see 'biodiversity' as crucial to future food supply, writes John Madeley

Earth's plants and animals are in danger of extinction in the next 30 years, raising fears for food supplies for future generations, according to a recent report by the Food and Agriculture Organi-

sation of the United Nations. Global food production will have to increase by more than 60 per cent in the next 25 years, the organisation estimates, and "biodiversity" is essential for this. Yet about three-quarters of the genetic diversity of agricultural crops have been lost since the beginning of the century, says the FAO, "and the world is increasingly dependent on fewer and fewer crop variet

The world's population obtains about 90 per cent of its calories from 30 crop species, it says. Four plants - rice, maize, wheat and potatoes - account for 50 per cent of total calorific intake. Yet there are an esti-mated 75,000 potential food spe-

10.45 10.35

11.00 10.90

990 982 991 983

993 990

Turnover: 10570 (17018liots of 10 tonne

in the tropical forests. While the introduction of high-yielding varieties of rice, wheat and maize, under the so-called "green revolution" bas raised yields, it has caused the replacement of thousands of local varieties of those crops

by a few, genetically very uniform varieties. That loss of biodiversity means less plant breeding material is available for the development of new strains of crops, the FAO warns. If a disease wipes out a crop, it is considered vital to have new strains available for farmers so that output can be maintained. The organisation was one of the chief supporters of the green revolution in the 1960s,

but it now stresses that "intensified food production can be achieved by the sustainable use of a broader range of species and genetic material". "Blodiversity is the source of

economic and food security," says the FAO's director-gen-

the least diversity, while the poorest countries have the richest reserves, "which underscores the interdependency of

Tropical forests and woodlands contain at least 50 per cent of all known plant and animal species, but are being destroyed at the rate of 15.4m hectares a year, the FAO estimates, causing reductions in the number of species, It believes only about 10 per cent of those forests are being managed in a way that will enable the output of timber to be sus-

Properly managed tropical forests could provide both timber and nonwood products while safeguarding genetic resources. A number of studies have shown that harvesting non-timber products is more remunerative than logging trees or burning

One study estimated that a cles in existence, many of them world's richest nations contain Peru, produced fruits and rub- sure, with over-fishing and the Saouma.

ber worth \$700 a year. After deducting collecting and transport costs, net anual revenues to farmers were just over \$400 a year. If a farmer with a hectare of trees chopped then down, earnings would come to around \$1,000. In that situation it therefore paid farmers to leave the trees standing and to harvest fruits and rubber from them to earn a regular annual income.

The FAO says the rate of extinction of animal breeds has increased dramatically in the past 100 years, mostly due to the highly specialised nature of modern livestock production. Animal production contributes about 30 per cent to the total global value of food and agriculture. About a fifth of existing breeds are at risk of extinction the FAO estimates, with endangered breeds more likely to be in developing countries.

Although the world fish catch has more than quadrunology having a damaging impact on many fish stocks, The catch in 1992 declined for the third year in a row, to just under 97m tonnes, compared with a record 100m tonnes in

even steeper decline in the fish caught at sea, the FAO says. In 1992, the marine catch was about 80m tonnes, down from

about 86m tonnes in 1989. Commercial fleets are driving some fish species close to biological extinction, destroying natural ecosystems such as coral reefs and seagrass beds. Climate change could affect stocks of fish "in an unpredictable fashion"; global warming could cause changes in the marine habitats and plankton that might lead to shifts in distribution and production.

The FAO plans a major conference on biodiversity in 1995. "Biodiversity is a life-support pled over the last 40 years, it is for the planet - cut it off and now under considerable pres- we will die." warns Edouard

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MARKET REPORT

London Commodity Exchange COFFEE and COCOA prices moved higher in the afternoon. Cocoa, after only a slightly steadier morning, took off with a vengeance in late trading afternoon, the near March jumping £13 at one point to £1,027 a tonne, the highest second position's highest level since July, 1988. Dealers said the market was running into little or no producer selling, which was helping to accentuate the rise. But they thought strong resistance was likely before £1,050. An absence of producer selling was also cited as a factor in coffee's continued advance, which took the January

London Markets SPOT MARKETS

Crude oil (per barrel POB)(Jar

Dubai	\$14.46-4.56z	
Brent Bland (dated)	\$15.62-5.64	+0.37
Brent Blend (Jan)	\$16.15-8.17	+0.31
W.TJ (1 pm est)	\$17.41-7.44z	+0.33
Off products	-	
INWE prompt delivery per to	mne CIF	+ or
Premium Gasoline	\$171-173	+1
Gas Oil	\$174-175	+2
Heavy Fuel Oil	\$60-62	-0.5
Naphtha	\$14 9 -151	+1
Petroleum Argus Estimates		
Other		+ or -
Gold (per tray az)ê	\$372.00	-3.2
Silver (per troy oz)#	453.50c	
Platinum (per troy oz)	\$374.25	-2.5
Palladium (per troy oz)	\$129.25	-1.1
Copper (US Producer)	79.0c	-0.5
Lead (US Producer)	32.75c	
Tin (Kuala Lumpur market)	11.9Qr	
Tin (New York)	217.00c	
Zinc (US Prime Western)	Unq	
Cattle (five weight)	117.09p	1.03
Sheep (live weight)†	88.57p	+5.13*
Plgs (live weight)†	72.12p	+1.34
Landon daily sugar (raw)	\$257.A	+1.9
London daily sugar (white)	\$284.0	+4
Tate and Lyle export price	\$285.50	+3
Barley (English feed)	Unq	
Maiza (US No. 3 yellow)	CT20.5	
Wheat (US Dark Northern)	€185.0	
Rubber (Dec)*	60.50p	+0.50
Rubber (Jani®	60.75g	+0.50
Rubber (NJ. RSS No 1 Jul)	207.0m	
Coconut of (Philippines)§	\$450.0v	-10.0
Palm Oil (Makaysian)§		-10,0 +2.5
ram Ce (Maraysian)g Coora (Philippines)§		TEA
	\$310.0	
Soyabeens (US)	0202.0	
Cotton "A" Index Noottops (64s Super)	55.15c	
	360o	

v

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position to \$1,296 a tonne at the close, up \$40. Base metal prices rallied from earlier lows during late trading et the London Metal Exchange. The three months delivery COPPER price rallied from \$1,630 a tonne on speculative buying and short-covering, tauching \$1,640 before closing at \$1,634, down \$7 from Tuesday. The ALUMINIUM market found strong support on dips towards the \$1,050-a-tonne level for three months metal, which bounced to close et \$1,056.50, a tonne up \$6.50 on the day.

CRUDE OIL - IPE

	Late	st Previou	16 High/Low
Jan	16.1		16.22 15.70
Feb	16.4	-	16.45 15.97
Mar	16.6		16.63 16.20
Apr	16.7		16.73 16.33
May	16.8		18.82 16.51
Jun	2.9 7		16:34 16:67
Jul	16.7		16.77
IPE Inde			
Turnove	r 24629 (2	19250)	
CAS OF	L - IPE		5/14
	Close	Previous	High/Low
Dec	187.25	164,75	167.25 163.75
Jan	105.75	163.50	166.00 162.50
Feb	164.00	162.00	164,00 161,25
Mar	163.25	160.75	163.25 159.75
Apr	161.25	160.00	161,25 159,00
May	101.25	160.00	101.50 159.00
Jun	161.75	160.00	159.50 159.25
Jul	163.00	161.75	163.00 100.00
Aug	164.25		184.25
Turnover	14526 (1	3093) lots a	100 tonnes
SUGAR	- LCE		(Sperto
White	Close	Previous	High/Low
*******			278.50 273.00
	275.00	276.30	210.30 213.00
Mar May	275.00 278.00	276.30 278.50	278.50 275.00

10.36 10.93 10.45 11.00 Tumover 99 (65) lots of 50 tonnes. COCOA - LCE Close 1013 1004 1005 1007 988 990 992 994 997

Compiled from Reuters

	16.18		16.22 15		COFFE	E - LCE			S/t
	16.43		16.45 15			Chose	Previous	High/Low	
	18.63		16.63 16					1997COM	_
	16.73		16.73 16		Nov	1287	1239	1285 1250	
	16.82		18.82 16		Jan	1296	1256	1296 1259	
	16.94		16:34 16	1.67	Mar	1247	1226	1251 1230	
	16.77		16.77		May Jul	1230	1214	1233 1213	
Index	15.92	15.44			Sep	1226 1231	1213	1220 1214 1233	
over	24829 (2	925OJ							_
							545) lots of	5 tonnes is per pound)	
OfL	- IPE			\$/tonna	16 Com (69.11)	p. daily 70	3.01 (68.54)	15 day avera	ge 6
	Close	Previous	High/Low						
	187.25	164,75	167.25 163.	75	POTAT	OES - LC	E		£ъ
	165.75	163,50	166.00 162.5	50		Close	Previous	High Low	
	164.00	162.00	164,00 161.3	25	Mar	211.0	100.5	110.0 107.0	
	163.25	160.75	163.25 159.2	75	Apr	91.8	830	93.0 91.7	
	161.25	160.00	161,25 159,0	00	May	107.5		107.5 106.0	
	101.25	160.00	101.50 159.0	00	<u> </u>				
	161.75	160.00	159.50 159.3	25	Turnove	132 (60)	lots of 20 t	วกกอร.	
	163.00	161.75	163.00 150.0	00					
	164.25		164.25		EREICH	IT - LCE		\$10.1nc	-
ONE.	14526 (1	3093) lots (of 100 tonnes			Close	Previous	High/Low	
	LCE				Nav				_
AR-				a gouve)	Dec	1280 1280	1300 1301	1300 1279 1300 1279	
	Close	Previous	High/Low		Jan	1285	1301	1300 1279	
					Apr	1305	1311	1310 1298	
	275.00	276.30	278.50 273.0	00	- Jul	1153	1195	1190 1170	
	278.00	278.50	278.50 275.0	00	BFI	1300	1306	1300	
	283.00	282.30	263.00 263.0	X)	T		1900	1300	
JVet 1	550 (780)	Parts - Whi	ite (FF) per to	nne):	Lumove	297 (76)			
1655	.01 Mar 1	1675,29			GRAINS	-10-			_
					Wheat				E/h
	vere some	signs this	week that the	wool	_	Cicso	Previous	High/Low	
			spent itself, if		Jan	98.90	98.75	98,90 98,50	
			nstrails the m		Mar	100.65	100.65	100.65 100.5	
			i cents a kg		May	102.65	102.65	10265 102.	
			dearances a		Sep	90.75		91 00 91.00	
			es, Fromantie %. softness e		Nov	92.00		92.00 92.00	
أنباه	an dallar i	en cela earl	d a slight chos	rben-	Barley	Glose	Previous	High/Low	
back	after at	most three	many countries of a	rising	Jan	103.85	103 65	103.75 103.7	75
		overce of ricem in th	25% owerall n na trade.	not			60 (121) Ba 10 Tonnes.	fey 2 (5)	

WORLD COMMODITIES PRICES Prices supplied by Amelgamated Metal Trading AM Official Kerb close Open Interest n, 99.7% purity (\$ per tons 1027-28 1032-3 3 months 1065/1052 1066.5-7.0 255,399 lots Copper, Crade A IS per tonnel 1613.5-4.5 1637.5-8.0 1018.5-16.5 1042-43 167,712 lots Lead (S per tonne Total daily turnover 4,539 lots Cash 398-9 3 months 412-2.5 399-99.5 412.5-13 415/412 Nickel (5 per tonne Total daily turnover 5,882 lots Cash 4607-1 3 months 4670-2 47,482 lots Tin (5 per tonne) otal daily turnover 2,063 lots Cash 4600-5 3 months 4650-5 Zing, Special High Grade (\$ pe Cash 925-6 3 months 943-4 LME Closing E/S rate SPOT: 1,4770 LIME AM Official \$/\$ spot rate LONDON BULLION MARKE 371.75-2.25 373.90-4.30 373.70 371.90 374.10-374.50 370.00-370.50

3 months 4	65Q <u>-5</u>	40	85-90	4090/4859	9 _4	060-65	4650-5	14	,225 lots
Zinc, Special	High Gr	ede (\$ p	ar toruva)				Total di	ally burnow	er 26,745 lot
	25-6		6.5-29,5	921.5		21.5-22	1.00		
	43-4		6-47	945.5/937		39.5-40	945-5.5	75	,008 lots
LME Closing	C/S ratu			-					
SPOT: 1,4770		3 π	nonths: 1.4	689	5	months: 1.	4623	0 n	ionthe: 1,456
LME AM Office	iai £/\$ s	pot rate	1.4775						
LONDON BUT	111001	A SWE	_						
Prices supplie					Ne	W Y	ork		
Gold Itroy ozi	\$ price		vtupe 3	alent	T-1				
Clase	371.75-	2.25			GOL		oz.; \$/tray oz	<u>- </u>	
Opening	373.90~					Clase	Previous	High/Los	w -
Morning fix	373.70		253.013		Nov	374.1	374.1	0	0
Alternoon for	371.60		251.131		Dec Jan	377.0	374.6	377,5	369.6
Day's high Day's low	374.10-				Fab	378.2 378.2	375.6 376.6	0 379.5	0 371.5
					Apr	381,0	378.4	381.2	373.0
Loco Ldn Me	an Gold	Lending	Rates (V	a USS)	Jun	382.9	380,3	383.3	375.0
1 month	2.70	6 1	nontha	2.70	Λug	384.7	382.1	379,5	379.5
2 months	2.70		months	2.72	Oct. Dec	386.6 386.6	384.0 386.0	0	0
3 months	2.70	ı			_			387.5	381.8
Silver fix	р/моу о	-	US cts	equiv	PLAT		roy oz, \$/troj	OZ.	
Spot	308.05		455.00			Close	Previous	High/Lov	
3 months	312.15		458.30		Nov	363.0	363.0	0	0
6 months	315.70		461.85		Jen Apr	378.5 380.2	378.8 380.5	378.8 380.0	374.0 376.0
12 months	328.75		470.56		Jul	381.0	381.3	379.0	377.0
					Oct	382.5	382.8	378.0	378.0
GOLD ÇOMS					SILVE	9R 5,000 to	Oy OZ Cents/	troy oz.	
	S prio	9	2 equiv	ralent		Close	Previous	High/Lov	
Krugerrand		1-379.50		257.00	Nov	459.8	465.5	0	
Maple leaf		-384.80			Dec	480.2	456.0	481,0	450.0
New Sovereign	67.00	90.00	59.00-6	5.00	Jam	481.0	457.4	0	o .
					May	464.9	400.7	486.0	456.0
TRADED OPT	NOME:				May	497.9 470.8	463.7 466.7	465.0	456.0
					Sep	474.0	469.9	472.0 487.0	489.5 486.0
Aluminium 199	740)	Calls		Puts	Dec	478.7	474.5	474.5	469.0
Strike price \$	ionne J	an Aj	or Jan	Apr	Jen	479.8	475.7	0	0
1025		8 63	15	20	Mer_	483.9	479.8	477.5	475.0
1050	2			30	HIGH	GRADE C	OPPER 25,00	00 lbs; cer	M/lbs
1075	1			42		Close	Previous	High/Low	
Copper (Grade	A)	Calls		Puts	Nov	73.1S	73.35	73.10	72.96
162S	3	6 71	31	42	Dec	73.15	73.35	73.35	72,50
1660	2			54	Jen	73.85 73.85	73.55	73.50	73.50
1675	1			67	Feb Mer	73.85 73.95	73.85 74.15	0	0
		-			Apr	74.20	74.40	74.15 0	73,35
									0 73,90
					May	74.40		74.40	13.30
Coffee LCE		an M	er Jan	Mar	May Jun	74.40 74.50	74.60 74.80	74,40 74,70	
		an M		Mar 43	May Jun Jul	74.50 74.85	74.60 74.80 75.05	74.40 74.70 74.60	74,10 74,60
	1.	_	0 4		May Jun	74.50	74.60 74.80	74.70	74,10
1150 1200	1.	50 14 07 11	0 4 0 11	43	May Jun Jul Aug	74.50 74.85 75.10	74.60 74.80 75.05 75.30	74,70 74.60 0	74,10 74,60 0
1150 1200 1260	1:	50 14 07 11	0 4 0 11 1 25	43 63	May Jun Jul Aug	74.50 74.85 75.10	74.80 74.80 75.05 75.30	74.70 74.60 0 galls \$/b	74,10 74,60 0
1150 1200 1250 Cocce LCE	1: 1: 7: D	50 14 07 11 1 85	0 4 0 11 3 25 or Dec	43 63 68 Mar	May Jun Jul Aug CRUD	74.50 74.85 75.10 E Oil (Lig)	74.60 74.80 75.05 75.30 ht) 42,000 US	74.70 74.60 0 galls \$/b High/Low	74,10 74,60 0
1150 1200 1250 Cocoe LCE	1: 1: 7: D	50 14 07 11 1 85 ec M	0 4 0 11 5 25 or Dec	43 63 68	May Jun Jul Aug	74.50 74.85 75.10 © OIL (Lig) Latest 17.11 17.48	74.80 74.80 75.05 75.30	74.70 74.60 0 galls \$/b	74,10 74,60 0
1150 1200 1250 Cocce LCE 875 900	1: 1: 7: D	50 14 07 11 1 85 ec M 08 15 1 13	0 4 0 11 5 25 or Dec	43 63 68 Mar	May Jun Jul Aug CRUD Dec Jan Feb	74.50 74.85 75.10 © Oil. (Ligi Latest 17.11 17.48 17.72	74.60 74.80 75.05 75.30 #3 42,000 US Previous 15.77 17.08 17.34	74.70 74.60 0 galls \$/b High/Low 17.19	74,10 74,60 0 Streil
1150 1200 1250 Cocce LCE 875 900	1: 1: 7 D	50 14 07 11 1 85 ec M 08 15 1 13	0 4 0 11 5 25 or Dec	43 63 68 Mar 11 16	May Jun Jul Aug CRUD Dec Jan Feb Mar	74.50 74.85 75.10 © Oil. (Ligi Lacest 17.11 17.48 17.72 17.88	74.60 74.80 75.05 75.30 Ht 42,000 US Previous 16.77 17.08 17.34 17.54	74.70 74.60 0 galls \$/b High/Low 17.19 17.55 17.75 17.82	74,10 74,60 0
1150 1200 1250 Cocce LCE 875 900 325	1: 1: 7 D	50 14 07 11 1 85 ec M 08 15 1 13 8 11	00 4 00 11 is 25 or Dec	43 63 68 Mar 11 16 22	May Jun Jul Aug CRUD Dec Jan Feb Mar Apr	74.50 74.85 75.10 © Oil. (Ligi Lacest 17.11 17.48 17.72 17.88 17.99	74.60 74.80 75.05 75.30 Previous 16.77 17.08 17.34 17.54 17.89	74.70 74.60 0 galls \$/b High/Low 17.19 17.55 17.75 17.82 18.06	74,10 74,60 0 arrel 16,56 16,89 17,16 17,36 17,56
1150 1200 1250 Cocce LCE 875 900 325	1: 1: 7 D	50 14 07 11 1 85 ec M 08 15 1 13	0 4 0 11 i 25 ar Dec 7 - 0 -	43 68 68 Mar 11 16 22	May Jul Aug CRUD Dec Jon Feb Mor Apr May	74.50 74.85 75.10 © Oil. (Ligi Lacest 17.11 17.48 17.72 17.88 17.99 18.15	74.80 74.80 75.05 75.30 Previous 18.77 17.09 17.34 17.54 17.59 17.83	74.70 74.60 0 galls \$/b 17.19 17.55 17.75 17.82 18.06 18.1S	74,10 74,60 0 arrel 16,66 16,69 17,16 17,38 17,56 17,70
1250 Cocoa LCE 875 900 925 Brent Crude 1600	1: 1: 7 D	50 14 07 11 1 85 ec M 08 15 1 13 8 11	00 4 00 11 is 25 or Dec	43 63 68 Mar 11 16 22 Feb	May Jui Aug CRUD Dec Jon Feb May Jun	74.50 74.85 75.10 © Oil. (Lig/ Lacest 17.11 17.48 17.72 17.88 17.99 16.15 18.26	74.80 74.80 75.05 75.30 18 42,000 US Previous 18.77 17.09 17.34 17.54 17.89 17.89	74.70 74.60 0 galls \$/b High/Low 17.19 17.55 17.75 17.82 18.06 18.15 18.28	74,10 74,60 0 0 16,56 16,89 17,16 17,38 17,55 17,70
1150 1200 1250 Cocce LCE 875 900 925 Brent Crude 1800	1. 10 7 11 8 5 4 2	50 14 007 11 1 85 ec Ma 08 18 1 13 8 11 1 13 2 49	10 4 00 11 10 25 00 -	43 68 68 Mar 11 16 22	May Jun Jul Aug CRUD Dec Jan Feb Mar Apr May Jun Jun	74.50 74.85 75.10 5 Oil. (Ligi Latest 17.11 17.48 17.72 17.88 17.39 16.15 18.28 18.38	74.60 74.80 76.05 76.30 76.30 Wt 42,000 US Previous 18.77 17.09 17.34 17.53 17.83 17.83 17.89 18.09	74.70 74.60 0 galls \$/b; Hight.ow 17.19 17.55 17.75 17.92 18.06 18.28 18.38	74,10 74,60 0 smel 16,56 16,69 17,16 17,56 17,70 17,84 17,95
1150 1200 1250 Cocce LCE 875 900 925 Brent Crude	1: 1: 7 1: 6: 5:	50 14 007 11 1 85 ec Ma 08 18 1 13 8 11 1 13 2 49	10 4 00 11 10 25 00 -	43 63 68 Mar 11 16 22 Feb	May Jui Aug CRUD Dec Jon Feb May Jun	74.50 74.85 75.10 © Oil. (Lig/ Lacest 17.11 17.48 17.72 17.88 17.99 16.15 18.26	74.80 74.80 75.05 75.30 18 42,000 US Previous 18.77 17.09 17.34 17.54 17.89 17.89	74.70 74.60 0 galls \$/b High/Low 17.19 17.55 17.75 17.82 18.06 18.15 18.28	74,10 74,60 0 0 16,56 16,89 17,16 17,38 17,55 17,70

	ING OIL	42,000 US (palis, centy/	US galls	CI	ricag	10		
	Latest	Provious	Hgt/Lo	₩			,000 bu min; o	ents/80th b	mhei
Dec	62.56	\$1.13	52.70	. 50.85		Close	Previous	High/Low	
Jan	53.35	52.00	53.56	01.60	Nov	682/5			
Feb Mar	53.75	52.45	53.90	52.30	Jan	689/6	674/2 681/4	683/4	672/
Apr	52.25	52.05 S1.40	52.40	51.96 51.40	Mar	685/4	687/0	697/0	6046
May	51.60	50.75	51.60	50.76	May	685/6	689/0	087/6	680/4
Jun	01.25	50,40	51,30	50.50	Jul Aug	698/8 682/4	690/2 696/4	698/0	688/4
Jul	e1.55	59.60	S1.55	51.30	Sep	663/0	659/4	666/0	660/0
Aug	52.00	61.10	62.00	52.00	Nov	638/0	637/2	640/0 -	630/0
Sep	51.75	52.10	0 .	0	_ 907/	MEAN OIL	60,000 Rbs; c	entallo	
GOCC		nes;\$/tunna			- =	Close	Previous	High/Low	
	Close	Previous	High/Los	<u> </u>	Dec	26.17	25.59	26.20	25.54
Dec	1221	1214	1227	1195	Jan Mar	26.21 26.25	25.64	26.25 · · · · · · · · · · · · · · · · · · ·	25,61
Mar	1256 1270	1250 1261	1259	1234	May	25.10	25,72	26.20	25.74 25.73
Jul	1284	1272	1286	1248 1263	Jul	26,11	25.65	26.12	25.65
Sep	1295	1283	1282	1280	Aug	25.77	25.42	25.00	25.46
Dec	1308	1298	0	a	Sep Oct	25,11 24,36	24.83	25.10	24.80
Mar	1312	1300	1307	1303				24.40	24.06
Mey Jul	1326	1314	1315	1300	2017		AL 100 tons;	\$/ton	
Sep	1341 1363	1329	. 0	0		Close	Previous	High/Low	
COFFE	E *C* 37	,600lbs; ca	nts/line		Dec Jen	213.3	210.1	213.6 210.5	208.0
					Mer	209.1	207.1	209.2	206.2
	Close	Previous	High/Lov	_	May	206.1	206.3	208.2	205.0
Dec	74.85	75.66	78.10	74.80	Jul Aug	207.9	206.6	208.2	205.5
Mar	78.10	78.65	79.10	78.00	Sep	205.7 203.0	205.2 202.2	205.8	204.5
May	79.65	80.25	80.65	79.65	Oct	195.7	198.3	203.0	201.7 198.5
Jul Sep	81.35 82.85	81,60	82.05	61.50	MAIZ	5.000 by	min; cents/50		
Dec	85.50	82.86 85.40	0 85,60	0 86.50	_	Close			
War	88.50	87.05	0	0	Dec	283/4	Previous 279/0	High/Law	
JUGA	R WORLD	*11* 112.0	100 lbe; carr		- Mer	289/6	208/2	283/0	278/4
_	Close				_ May	291/0	268/8	291/2	287/0
		Previous	High/Lox	<u>'</u>	_ Sep	290/0 272/0	288/0 271/4	290/2	286/4
Mar.	10.18	10.14	10.29	10.08	Dec	258/4	257/4	273/0 258/2	271/0 256/4
May Iul	10.39	10.35	10.49	10.30	Mar	262/0	263/4	263/2	261/2
Oct	10.46 10.36	10.40 10.37	10.59 10.46	10.36 10.30	WHEA	T 5,000 bu	mirr, cente/6	Oth-bushel	7.
20110	N 50,000	lbs; cents/				Close	Previous	High/Low	
	Close	Previous	High/Lore		_ Dec	354/0 351/2	348/8	355/2	347/4
lec	58,40		58.80	<u> </u>	- May	337/0	345/8	352/0 338/2	345/4 332/6
Aer	60.18	58.50 60.57	60.49	56.10	žui.	327/0	325/2	326/2	323/4
Agy	61,30	61.77	61.60	60.02 ·	Sep Dec	331/0	330/2	331/0	326/0
M	82.34	82.85	82.75	82.25	Ju	339/0 323/0	338/Q 323/Q	339/4	397/4
Oct Dec	62.75	62.97	62.90	62.75	LIVE		.000 the; cent	323/0	923/0
Astr Astr	82.75 83.82	63.67	63,00 0	62.60					
ARY	83.87	64.12	ŏ	0 .	Dec	Close	Previous	High/Low	
RANG	E JUNCE	15,000 lbs;	-		- Feb	73.450 74.325	73,400	73,650	73,175
				<u> </u>	Apr	76.925	74.175 76.150	74.350 75.400	73,950
	Close	Previous	High/Low		Jun	73.226	73.000	76.400 73.250	76.100 72.925
91	109.90	109,75	111,60	400 00	_ Aug Oct	72_100	71.800	72,200	71,800
la _r	112.25	112.00	113.70	108.50 110.50	Dec	72.100 78.150	72.150	72.275	72.050
ч	119.90	113,50	116.75	113.00			73.100	73.200	73.100
ui Sep	115.40	115.00	116,20	116.20	CLAF H	903 40,00	O lb; cente/lb	•	
OA. afb	116.90 114.90	116,60	116.90	116,90		Close	Previous	High/Low	:
BIT .	114,90	114.50 114.50	110.50	115.50	Dec	45,650	45,770		
lar	114.90	114.50	,D	0	Feb	47.A25	47,500	45.825 47.800	45.175
				0	Apr.	47.500	47.525	47.675	47.125 47.175
ND	C#3				. Jun Jul	52.850 53.476	58.050	53,100	52,000
				I	Aug	52.175 51.000	62,300	52.200	52,000
-	C-2 (80)		or 18 1931 ·	100)	Cct	47.100	01.200 47.250	51,250	50,860
	Nov 17	Nov 16	moth ago	y ago	Dec	47.875	48,100	47.200 48.160	47,000 47,675
DO#	1621.9	1615.5	1588.9	1004 -	PORK	BELLIES 4	0,000 ibe; cer	rbe/fiz	41,070
	Nov 18		31 1974 - 1	— i		Close	Previous	High/Low	
_	122.46		nanth ago	yr ago	Feb	53.200	63.400		
	142.45	122,58	121.88	118.23	Mar	63.250	53,425	53.560 53.47 5	52.500 52.500
	134.19								
	134.13	133.68	125.68	118.04	- May	63.550	54,000	54,450	
Spot Future:	134,13	133.68	126.68	118.04	Jul Aug	64,050	54.000 54.700 - 53.725		63.300 63.860

H)CH



of more than 20 reactors. At the very least Russia is likely to need World Bank help if it is in the Ukraine, unable and

and western nuclear scienusus Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, supplies of other fuels and other factors over which the nuclear industry has

SOUTH AFRICA: Open for investment

Thursday November 18 1993

IN THIS SURVEY Shaking off the legacy of

apartheid

No country in Africa has a legacy that can compare with the traumatic impact of apartheid; but none came to independence with the array of resources that will be at the disposal of the government that will be elected next April, under the constitution agreed yesterday. In this survey of the most powerful economy on the continent, FT writers assess prospects for

☐ Who's who in the new South Africa

investment

A convenient cohabitation ANC way ahead in the

Business sits on its hands and waits From civil war to

- starry-eved optimism ☐ Expectations may be too
- ☐ Retailers are wooing.

Business exhibits

☐ The financial rand is disliked but it is 'still

☐ The view from abroad: Capital markets, United States, Japan, Germany and France ☐ Johannesburg Stock

Exchange takes a quantum leap The unthinkable achieved

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- Launch pad for a continent
- ☐ South Africa searches for international recognition
- ☐ Tourism: playground for

Airica editor: Michael Holman Editorial production: Roy Terry **Hestration: Joe Cummings**

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A new nation starts to take shape

Nearly four years after Nelson Mandela's release, South Africa begins a fresh era. Patti Waldmeir reports

the ANC," says one ANC mem-

ber who bemoans the complex-

ity of a society which imposes manifold constraints on the

party of government: he

welcome these constraints as

curbs to abuse of power. But all would agree that South

Africa does not fit the classic

African mould of a society

which easily falls prey to had

Strong interest groups counterbalance the power of gov-ernment: chief among them is

a strong, diversified and battle-

hardened corporate sector; the 1.2m-strong labour federation

Cosatu, historically allied to

government

YESTERDAY South Africa rowed by any standard. broke the twisted mould of In political terms, too, South apartheid, and cast away the

After decades spent fighting the tide of history, which sub-merged other racist regimes long ago, South Africa yester-day opted to join the modern world. It can now play a full role at the United Nations, rejoin the Commonwealth, become a member of the Organisation of African Unity. and play a much-needed, constructive role in the development of southern Africa and

Yesterday's agreement on a post-apartheid constitution is the first irrevocable step on the path to full democracy; but it is only a first step. The next few months and years will show whether South Africa's tenure as a democratic nation will be nasty, brutish and abort, or stable, happy and prosperous; whether it will substitute black domination for white repression; whether it will defy the logic of divided societies worldwide, and nurture true multi-ethnic democ-

Though the mould of apartheid has been broken, Africa provides other unfortunate models for the new state: tyrannical regimes which abused power, crushed dissent and lay waste whole economies through maladministration, corruption and theft.

South African politicians, black and white, bridle at the comparison: Finance Minister Derek Keys offers the consensus view when he insists that South Africa "will be totally different from the rest of Africa. It always has been and it always will be".
" Economically, that is obvi-

ously so. Mr Keys points to South Africa's clear superlority in terms of indigenous capital", both human and financial. The new leaders will manage the continent's most powerful economy, with gross domesticproduct equal to 75 per cent of sub-Saharan Africa's gdp, with an economic hinterland which stretches as far north as Zaire, generating half of Africa's electricity. Even in broader international terms, it compares well: with a well developed stock market, banking sector, and body of company law, South Africa offers more to the investor than, for example, eastern Europe; and with foreign debt at US\$17.3bn, or 15 per cent of gdp, it is underbor-

Africa is different. In 1957, when Ghana became the first African nation to gain indepen-dence from Britain, Kwame Nkrumah inherited a position of largely unfettered power. But South Africa's first black president - likely to be the African National Congress leader, Nelson Mandela - will find his room for manoeuvre

far more circumscribed, in law, and more importantly, in fact.
"South Africa is too big for believes they will inhibit the ANC's ability to transform South Africa virtuously; others

the ANC, has recently begun In fact, central government flexing its independent muscle, and is well organised and powerful enough to play the role of democracy's watchdog. The highly politicised and motivated township "civics", or community associations, could also prove an important check on government power; for South Africa's "masses" are not the fawning crowd which greeted Kwame Nkrumah, African liberator, they are demanding, well organised, and used to fighting their polithard to accept Mr de Klerk's

The list of powerful interest groups outside the ANC's aphere goes on and on: the 1.2m strong civil service is dominated by Afrikaners, who are scarcely natural allies of the ANC. The defence force, though professional and committed to supporting the government of the day, is also Afrikaans-dominated, as is the

Last, and arguably least of the factors constraining an ANC government, is the constitution agreed yesterday by the main political parties. That constitution was meant to prevent majority domination through power sharing, it was supposed to guarantee democ-

minority losers in any majority-rule election would still enjoy a powerful say in governent. It falls some way short of so doing minorities will be represented in government. with every party earning 5 per cent of the national vote enti-tled to a seat in cabinet; but the power of minority parties

in cahinet is precarious.

The ANC, which will have both a president and a deputy president, will have its own way on any disputed decision. And though it has promised regular consultation with the second deputy president. drawn from the second largest party (probably Mr F.W. de Klerk, current president), he wili have no statutory powers to frustrate Mr Mandela's will.

The constitution fails to deliver other checks and halances which the ruling National Party had insisted were essential. The party's 1991 constitutional proposals called for political power to he divided between three tiers of government - central, regional and local - with each tier to have "original and entrenched authority with which other tiers of government may not

retains wide powers to "interfere" with regional govern-ments: the constitution authorises central government to intervene in terms so vague (to impose uniform national norms and standards, to ensure proper regulation, and where there are implications for national security or economic policy) as seriously to undermine regional autonomy. And with regions barred from imposing taxes without central government approval, it is

claim that the new state will

be "federal". National Party negotiators believe that they will not need entrenched constitutional provisions to play a powerful role in restraining the ANC: they believe the ANC's assurances that it does not wish to govern alone (and does not believe it could do so effectively); and they judge their electoral strength will give them an important say in cabinet, though only if they are able to better their poll showing of 11 to 13 per cent.

But clearly, the National Party has settled well below its bottom line on crucial issues; probably, it had no choice. As



constitution. Still to give his consent is Chief Mangosuthu Buthelezi (centre) head of the Inkatha Freedom Party (IFP). Leading figures in South Africa's history in the background (anti-clockwise) include Shaka (top left), who welded a number of tribes into the mighty Zulu nation; Jan van Riebeeck, founder of the white settlement in 1652; Jan Smuts, prime minister 1919-24 and 1939-48, who was one of the founders of the UN; Albert Luthuli (1898-1967), president of the ANC during the heydey of apartheid in the 1950s and 1960s; Hendrik Verwoerd, prime minister 1958-66, architect of apartheid; and Paul Kruger, president of the Transvael republic during the Boer War (1899-1902)

a minority government whose restore stability after the April power diminishes by the day, 27 elections. Agreement seems negotiators calculated that a deal done now would he preferable to that available next month or next year. And whatever the shortcomings of the constitution, agreement is better than continuing deadlock. Though it is not strong enough, it is far from illiberal, and should help to reinforce

democratic forces. But if South Africa does escape some of the more grotesque abuses of power for which Africa is famous, it is scarcely likely to become a prosperous liberal democracy overnight.

The new hill of rights enshrines tough emergency powers which can he used to

to exist between the ANC and NP that restoring stability. through temporary repression, is the highest post-election pri-

According to this scenario, democracy will be a temporary casualty while the new government pursues stability and economic development; and if it succeeds in restoring law and order without repeating the oppression of the past, it will he widely popular with an electorate (white and hlack) fed up with crime and violence.

Much will depend on whether the mainly Zulu Inkatha Freedom Party of Chief Mangosuthu Buthelezi can be persuaded to participate

in next year's elections: though ics - and not politics - which rejects yesterday's constitu-tion, be could decide he has more to gain hy fighting rather than boycotting an election. If he actively opposes the poll. the security situation could become untenable, especially if the white right wing, now in tactical alliance with Inkatha, also opposes the election. The ANC and NP must guarantee that there is critical mass at the political centre, and that

the crackdown need only sup-press the lunatic fringe. If Inkatha and the right wing, with their numbers and their firepower, are to be suppressed in unison, stability may he umattainable. But in the end, it is econom-

For yesterday's constitution marks a decisive shift in electoral power from the "haves" African society." Popular expectations will

soon strain the intentions of even the most benevolent government; at that point, it must either give in to populism, or

The latter now seems most likely; the new South Africa will start with a hefty dollop of the old. That will be unfortu-nate, but bearable; what will destroy South Africa's democratic prospects forever is failure to deliver a hetter economic deal to the masses. It is

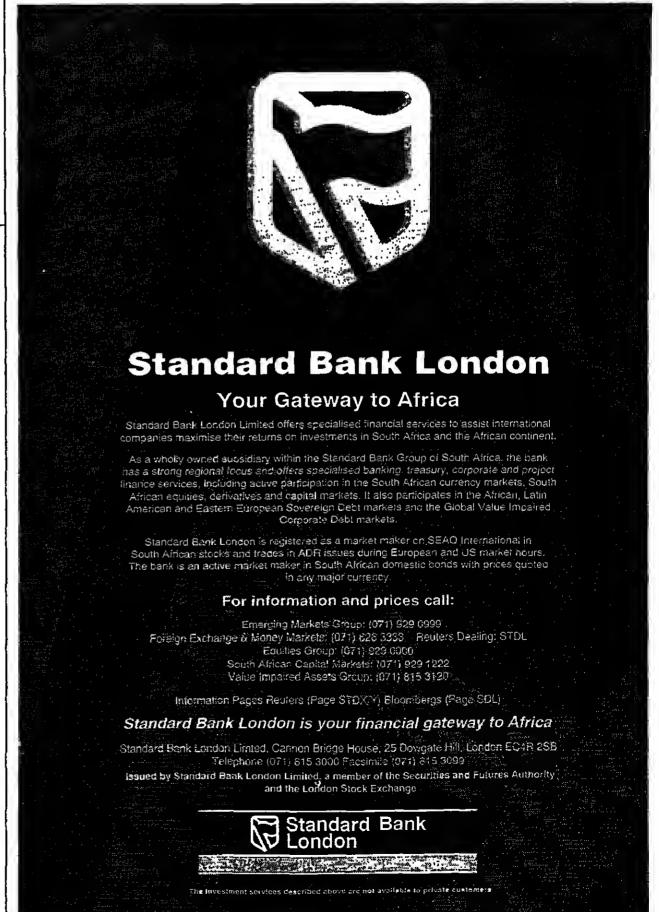


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Cyril Ramaphosa: insists he will

South African Communist

Party, has arguably done more

to deliver a moderate constitu-

tional deal than anyone apart from Mr Mandela himself.

Despite his socialist economic

views, he is likely to be a force

come. Jacob Zuma, one of

for pragmatism for some time

the few leading Zulus in the ANC, is almost guaranteed a

top position. Sober and reason-

able, he has handled delicate

negotiations with Inkatha well.

Tokyo Sekwale, voted the sexi-

est man in Johannesburg in a

recent radio poll, is a charis-

matic populist of far more radi-

cal views; he is likely to try to

push ANC economic policies in a radical direction. Sam Shi-

lowa, recently elected general

secretary of the largest union

federation, Cosatu, will fight

for union independence under

the new government, and will

not be sby to use his power if

government forgets its commit-

ments to the masses. Moses Mayekiso, head of the South

African National Civic Organi-

sation, will also prove a radical

Last and most difficult to

assess, Chief Mangosnthn

Buthelezi, leader of the

Inkatha Freedom Party, will

play a principal role from

within or without the new gov-

ernment. With his irritable and

unpredictable personality, he

is likely to prove difficult to

manage, whether he accepts or

rejects the deal. Only time will

tell which he will choose.

not enter parliament

Power people in waiting

AFFER nearly four years in the news, everyone knows Messrs Nelson Mandela and F.W. de Klerk, who are likely to remain tha two most important men in South African politics. Their relatiouship will change: Mr Mandela is overwhelmingly likely to take over as president, while Mr de Klerk will be relegated to the status of second deputy president, behind another deputy from the ANC who will act as de facto prime minister to Mr Mandela. But their strangths and weakoesses will remain the same, however their titles may change: to the outsida world, they are largely a known quantity.

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But the new government will be influenced by a host of politicians whom outsiders know either less well, or not at all. Some have emerged from the trade union movement, soma from the ranks of the African National Congress in exile, some from its guerrilla wing and others from the enlight-ened wing of the National Party. Others still come from Inkatha, or the corporate

Predicting who will be who in the new South Africa is inevitably an inexact science: partly, it will depend on the scramble, only now beginning to reach the top of each party's electoral list (voters will not choose individual members of parliament, but will vote a straight party list). Lists will be chosen by parties themselves: in the case of the ANC, after strong input from the

membership. But some individuals seem almost certain to rise to the top of the pile, whether electorally, or by exercising influence outside parliament. They are:

Thabo Mbeki: recently pro moted to the post of ANC national chairman, Mr Mbeki could well fill the post of first deputy president under Mr Mandela. (This post might naturally have gone to Cyril Ramaphosa, ANC secretary general, hut he insists he does not want it). Mr Mbeki, for many years the head of the ANC's department of interna-



Roelf Meyer: from the ranks of

tional affairs, is urbane, moderate, articulate and the darling of the business community. Son of one of the ANC's most

famous elder statesmen – radical Govan Mbeki, 83, who is now retired - Mr Mbeki was born in 1942 and took an MA in economics from Sussex University. During nearly 30 years in exile, be developed the kind of middle-class tastes which reassure whites, and cheer the hearts of foreign investors: nattily dressed and puffing on the ubiquitous pipe, Mr Mbeki speaks the language of the monied classes while mysteri-ously retaining grassroots supnort at the same time Cyril Ramaphosa: No less

charming than Mr Mbeki - and becoming a rapid convert to South Africa's unrivalled version of tha "good life" - Mr Ramaphosa insists he will not enter parliament, but will stay to build the ANC for the crucial, post-liberation elections in 1999. Mr Ramaphosa bad a solid popular base in the National Union of Mineworkers which he left to become ANC secretary-general in 1991 but has spent almost all his time since locked in negotiations with the government and other parties. His image has suffered as talks have dragged on, and he risks being blamed for concessions made: but the truth is that this witty 41-yearold, a consummate negotiator, bas outmanoeuvred the government on many crucial issues, and delivered a deal

which favours the ANC. His

Thabo Mbekt: could well fill the post of first deputy president

economic views lean toward the socialist - though he keeps them hidden - and be is likely to prove effective in hullding the ANC's constituency.

Derek Keys: Mr Mandela can send no more powerful signal to forlegn investors than to keep Mr Keys on as finance minister in the new Govern-ment. As National Party minister of finance, Mr Keys, 62, has trodden carefully with the antiapartheid opposition, bringing them along with him every step of the way to a new debt rescheduling deal, a joint pitch on foreign investment, and a commitment on fiscal discipline to the International Monetary Fund. After 30 years as one of South Africa's top busismen, Mr Keys is a technocrat rather than a politician, and may well survive into the new era. Likewise, his respected counterpart at the South African Reserve Bank (central bank), Chris Stals, who has done much to tame inflation and restore international financial credibility.

Roelf Meyer: chief government negotiator, Mr Meyer, 46, hails from the ranks of the enlightened nationalists. He and colleagues Leon Wessels, Dawie de Villiers and Sam de Beer see a hright multiracial future where whites will continue to exercise influence by virtue of their strength in the civil service, the economy and the

Joe Slovo, chairman of the

THE African National Congress is heading for power next April with the Congress of Sonth African Trade Unions (Cosatu), the country's main labour grouping, as its chief isers will be prominent on the ANC state of election candidates, and the ideological compatibility between the two is Still, however, their rela-

tionship is little more than a convenient cohabitation. Backroom spats and whisperad recriminations are becoming more audible, though both parties will continue to attempt to stifle such noises until after polling day.

A break-np is likeliest to come in the 1994 public sector pay round, when Cosatu will demand its palimony.

Last Thursday, Cosatu called off a one-day national strike planned for Monday - aimed largely at curbing employers' constitutional rights on lockonts - after the ANC leader-ship made clear that it would countenance such disruption in what should be a triumphal week. Cosatu leaders, summoned to private talks at the World Trade Centre, were provided with a face-saving formula but no real gains. Mr Sam Sbilowa, Cosatu's

new general secretary, is unrepentant. "Trade union independence is very important," be says. "Cosatu would be foolish if it cannot look at the [draft] constitution and ask what issnes would adversely affect its own members." Asked what the threatened

stay away, followed by climbdown, achieved, be adds: "One can say that the struggle for worker rights has begun. We are not a junior partner or appendage of the ANC." Disagreements between the two. in other words, would not always end in this way.

Mr Andrew Levy, a labour consultant, warns: "Cosatu will determine what bappens to this economy

With some 1.2m members spanning sectors from mining to textiles to banking to teaching, Cosatu has an agenda which is in some ways supplementary to that of the ANC and in others places differing stresses or priorities on the same basic goals. As would be expected, both

say they will seek to ensure an end to workplace discrimina-Patti Waldmeir tion, on gender and other

> SOUTH AFRICA'S first elections are likely to be dominated by the issue of liheration

from apartheid, and as the pri-

mary party of liberation, tha African National Congress

(ANC) can count on a large "vote of thanks" from black

With the widely respected the ANC is expected to win the

largest share of the vote -

recent opinion polls have

shown its support at between

46 and 58 per cent, though poll-

sters believe a two-thirds vote

for the ANC is possible if many

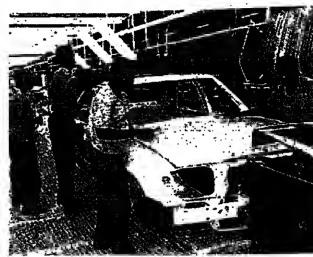
voters choose not to vote at all

of the 25 per cent undecide

South Africans.

INDUSTRIAL RELATIONS

A convenient cohabitation



grounds as well as race. Beyond that, they require affirmative action to purge the legacy of apartheid.

Neither of these is yet much of an issue for large employers, particularly multinationals which have been running ahead of the game in promo ting blacks. Unsurprising disgruntlement is being heard from some white staff in such companies, hnt rather more acute workplace difficulties may surface next year if black unions decide that, even so, the pace of change is not to

What is likely to set the ANC and Cosatu apart is wage restraint. This would be part of "co-determination", currently the most commonly bandied catch phrase in industrial relations. Mr Shilowa professes not to know what it means - and fairly so, because its usage seems to vary.

In the public sector, the implication from the ANC government-in-waiting is that hlack workers are already substantially better off than the 45 per cent or so who are withont any formal employment. Thus they should accept wage rises next year substantially below tha country's 9 per cent inflation rate so that cash can be channelled to upliftment programmes elsewbare. In return, unions should be given

say in reconstruction and

development planning. Private sector companies, equally loath to make inflationary pay awards, are here and there offering seats on the board for labour representatives to instil a sense of partictpation in decision making. From Cosata's point of view, though, these are often banbles rather than hallast for its

Some sort of accommodation etween labour and capital is necessary to set the new dispensation on course; all but the most radical agree, but attempts at cosmetic corporatism are being treated with suspicion. Labour activists are demanding that a strategic view be taken across each industry, with retrenchments and new entrants alike being given equal scrutiny. To take

At the National Union of Metalworkers of South Africa (Numsa) - one of Cosatn's two largest member unions along with the National Union of Mineworkers - Mr Bernie Fanaroff maintains that some of tha country's vehicle ass hlers are already matching the

cost structures of plants in Asia. But, he adds, the three dozen model variants for new cars are too numerous for the market, and further productivity improvements may depend on following Australia in shed-

ding whole ranges. Never mind cars. Mr Shi lows, arguing for an audit of where investment is most eeded, asks simply: "Why don't we produce bicycles?" All are imported, most of them from Taiwan.

■ Charity shops selling second-hand clothes donated from Japan and North America have at times been occupied by protesting members of the South African Clothing and Taxtila Workers Union (Sactwu) on the grounds that even such outlets might erode their jobs. The union is now, however, concentrating on the real threat to employment in its industry posed by prospective Gatt reductions in import tar-

What the three have in common is a recognition that solu-tions to labour questions within specific companies will not in themselves secure, let alone increase, jobs. On imports, there is an acceptance that tariffs will have to be lowered in many instances, but unions argue that this should happen only after inefficiencies have been sorted out and an upgrade taken place in efacturing technology run down by sanctions and a general decline in capital spend-

a tripartite basis among employers, unions and govern-ment, and foreign investors would have to accept that they did not hava an unfettered right to manage, Mr Shilowa makes clear.

We want to be involved in industrial restructuring," he ity, one has to feel a sense of ownership."

He offers some assurances unions would keep their side of the bargain and could not justify breaking a wage agree ment within its lifespan. But any other grievances which surface would be dealt with as Cosatu saw fit. "If co-determination means we are prepared to work with employers - yes. If it means us entering into social pacts without being allowed to strike - no."

Gordon Cramb

from

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Leaders in M&A and Equity Financings for South African Companies

Bookrunning lead-manager for Liberty Life Association of Africa



Liberry Life raised USS134 million in its euro-equity offering October 1991 Bookrunning lead-manager for



raised USS236 million in its international equity offering

Financial adviser to Royal Corporation Limited

Del Monte Foods International Limited has been acquired by Royal Foods Limited for £345 million

December 1992

Financial adviser to Anglo American Corporation of Sonth Africa Limited

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Anglo American Corporation transferred the major part of its internutional assets to Minorco Société Anonyme for US\$1.4 billron September 1993

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Patti Waldmeir on the political parties

Coloureds and Indians, though it may also win a substantial number of votes from hlacks ANC, or who yearn for law and

recent opinion polls has fallen as low as 11 per cent though it (an outcome which would favour the ANC, whose voters are more motivated). ANC policies are not likely to exert a significant influence on voting patterns in the first elections; opposition will come from those who accuse the ANC of involvement in violence, or from those who view the organisation as Xhosa-dom-inated (many top ANC officials belong to the Xhosa tribe).

The ANC's stated goal is to create a non-racial multi-party democracy with a mixed econ-

National Party The new multi-racial National Primarily a Zulu party based

nic minorities such as whites, who fear domination by the The National Party's share of

seems likely that this represents a protest vote which could disappear. Most Afrikaners, along with most other whites, are likely to vote for the National Party, along with a large share, perhaps a majority, of Coloureds and Indians. The party's policy is similar to that of the ANC: multi-party democracy with a free enterprise economy (probably freer than that envisaged by the ANC); but the National Party also pledges to fight for minority rights.

Inkatha Freedom Party also claim substantial white support in its regional base. The IFP scores poorly in opinion polls (9 per cent) which focus on towns. However, IFP support is concentrated in

rural Zululand and in town-

ships where violence makes polling difficult. The IFP, like the other two parties, supports multi-party democracy and free enterprise, but believes in strong regional government. It is likely to fight the election on a law and order

Conservative Party The white supremacist Conservative Party gained 800,000 white votes in the 1992 referendum though its support has certainly waned since then.

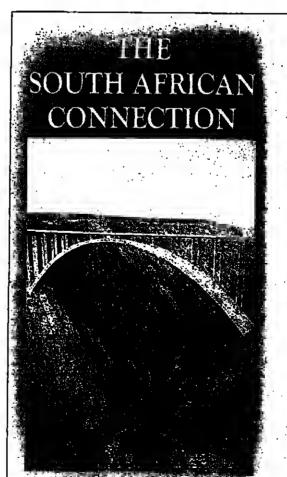
Still, it represents the only home for whites who reject the new South Africa, and wish to cast a protest vote. It seems unlikely to win a major share of the vote nationally, and may not even win a majority of Afrikaners.

Democratic Party. South Africa's liberal party,

the Democratic Party will be lucky to get the 5 per cent of seat to the cabinet. Though i too, fought apartheid through the decades, the DP is likely to reap no liberation bonus. Viewed as a weak party, it has no obvious constituency except affluent whites in Johannesburg and some Coloureds and

Pan Africanist Congress This ultra-radical black party scores in low single figures in opinion polls. It is likely to fare badly in the first election, although its policy of rejecting accommodation with whites could well become more popular, particularly among young unamployed hlack South Africans, if the first post-apartheid government fails to deliver immediate fruits of victory. The PAC is a socialist party and its policies are basically

pro-black and racist



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of more than 20 reactors. At the very least Russia is likely to oeed World Bank help if it is

and western nuclear scientists Mr Rémy Carle, chairman of the WANO governing board and deputy general manager of

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Electricité de France, told the in the Ukraine, unable and

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BARRING dramatic political

setbacks, the worst is past for

In the closing months of

the South African economy.

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restore confidence to a badly-

mauled business sector, devel-

opments in the global econ-

omy, especially the commodity

price cycle, and the economic

policy framework that evolves

There are grounds for cau-

tious optimism on all three

counts. A reduction in the vio-

lence and general acceptance

of the election results; would

do wonders for husiness

morale, simultaneously open-

ing the door to a strong upturn

in public works spending on

housing, electrification and

roads. On the policy front, finance minister Derek Keys

has managed through the

in the "new" South Africa.

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Mark Harry

SOUTH AFRICA: OPEN FOR INVESTMENT

THE ECONOMY

The recession is ending, inflation is in single figures, but many hurdles remain, writes Tony Hawkins

Business is sitting on its hands and waiting

Real GDP growth

leaving the basic rate

unchanged at 40 per cent. One

senior ANC economist, Mr Tito

Mboweni, has ruffled feathers

with his suggestion of a once-

though this has since been

there is scope to fund uplift-

ment programmes by restruct-

uring government spending.
This is questionable; the

"peace dividend" from defence

cutbacks has been largely

siphoned into increased spend-

country where crime levels seem destinad to remain

uncomfortably high, there is

little room for savings. Nor is

there going to be any "spart-heid dividend" since the elimi-

nation of wasteful, duplicative

spending on social services for

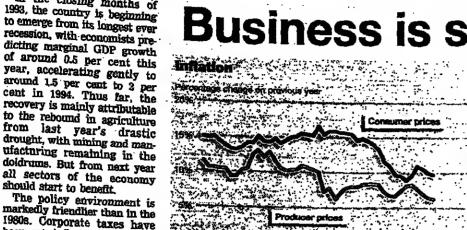
blacks and whites, will be off-

ing on the police, and in a

ANC economists believe

played down.

"reconstruction levy."



been cut, inflation is in single digits (9.7 per cent forecast for 1998) for the first time in 20 years, a new tariff structure is about to be launched and both National Economic Forum to real wages and real-interest put together a middle-ofrates have started to fall. the-road consensus to secura Tha balance of payments agreements on resolving the remains a problem area as capital outflows continue and Predebt standstill, an \$850m IMF loan, future relations with the toria is committed to repay World Bank and the crucial over \$1bn annually for the next GATT Uruguay Round submission that will liberalise and eight years. Bankers and stock-

brokers say the country is streamline South Africa's tariff underborrowed - which it is, with a foreign debt of \$17.3bn Disconcerting though the lator 15 per cent of GDP - leaving est EC and Japanese numbers may be, South African econoscope to refinance previous commitments. But such rollovmists are modestly confident ers merely provide a breathing that the commodity cycle has space rather than a solution. done its worst and that This suggests that - in the demand and prices for many of absence of strong export growth - there will be little the country's key exports -especially gold - will recover in 1994-95. Even so, the upturn room for abandoning the financial rand and liberalising is going to be relatively limp exchange controls, at least through next year, as investors and businessmen sit on their The strength, and duration, hands until the elections are of the upturn will depend on out of the way and they have three main factors; the new some idea of who will be holdadministration's ability to ing the reins of economic

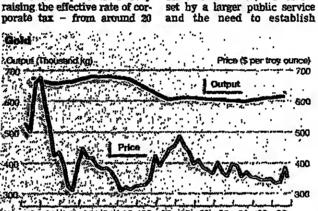
> Many hope and expect that Mr Keys will retain the finance portfolio, while Dr Chris Stals whose term as governor of the South African Reserve Bank expires next year, and whose tough monetarism has done so much to reduce inflation, fiscal follies notwithstanding, will be

reappointed. Continuation of the Keys-Stals dunble-act would certainly calm business and banking nerves, abroad as well as at home, providing much-needed continuity and stability. But whether the ANC is ready to allow whites to retain control over key economic manage-

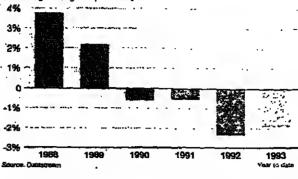
Mr Mandela and his close aides may be happy with such a transitional arrangement for two or three years - hut already there are demands lower down the ANC hierarchy for some relaxation of mone-

tary and fiscal policy.

Fiscal policy is going to be crucial. While some in the ANC exude moderation, insisting that large tax increases are not necessary, this begs the \$64 000 question - how is the country to fund the proposed social upliftment and job-creation programmes? Professor Dennis Davis, an ANC tax adviser, has snggested increased estate duties along with differential rates of VAT so that some basic necessities can be zerorated while higher rates are applied to luxuries. Some rationalisation too of taxbreaks seems probable thereby raising the effective rate of corporate tax - from around 20



Percentage change on previous year 4%



regional governments and structures. Mr Keys bimself believes there is likely to be a net increase rather than saving, and sees his job as minim-ising that "bump."

One of the conditions of the IMF loan is a reduction in the budget deficit to 6 per cent of GDP in 1994-95, down from the 6.8 per cent forecast for the current year. Mr Keys says that 2 per cent of this repre-sents public sector investment spending, while 2.5 per cent is needed to build up the civil servants pension fund in terms of already-announced political guarantees. He bopes 10 achieve savings by eliminating the remaining 1.5 per cent of "discretionary" deficit, but It is hard to square his plans with It has been estimated that

the social upliftment goal, racial parity in social service spending would cost almost a quarter of GDP, with education alone requiring 15.4 per cent.

FT-A world indices

Source: FT Graphite

more than double the 7.3 per cent provided in 1993-94. Indeed, a "parity budget" would mean shifting 10 per cent of GDP into the social services budget from a budget total of 28 per cent (excluding debt-service expenditure). Since such a target is out of reach, the likely implication is that the ANC's sweetness and light on the tax front will fall foul of political realism on one hand, and the need to deliver some form of liberation dividend on the other. Cost-recov-

Foreign debt

As a percentage of GDP

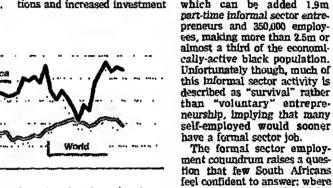
tially on the better-off, could well be necessary. strain too on the labour front.

ery in the public sector, in the

form of user charges for educa-

tion and health, targeted ini-

sector that is crucial to any The fragile economic strategy consensus will come under In 1989, the Central Statistical While there is broad agreement Service (CSS) estimated that on the need to put job creation there were some 304,000 fullahead of wage increases, optimism that the lifting of sancoperators in South Africa to tions and increased investment



with value-sdded through beneficiation of minerals is perhaps the most obvious answer, but hardly reassuring given the probability of continued sluggish growth in primary product demand and the possibility of ongoing excess capacity. In any event, such operations are bighly capital intensive, creating few jobs.

The finance minister is optimistic though, pointing out that Samcor, which assembles vehicles, takes 34 bours to produce a motor car compared with 44 hours in Western Europe. In the pulp industry, productivity is higher at one South African plant than in Germany, "We bave nothing to worry about in terms of productivity," says Mr Kevs confidently, arguing that low black worker productivity under the apartheid system reflected demotivation. "There was nothing in it for them." Black people could not move to better areas, nicer homes or send their children to better schools. They were not motivated to improve productivity.

will make a significant dent in

unemployment looks mis-

Unemployment, estimated at

frightening 46 per cent by the

SARB, is the most important

single challenge that will face

the next government. The opti-

doomsday scenario exaggerates the problem, citing the 1991

census which found that 19 per

cent of the workforce were

actively seeking jobs, with one quarter of the black workforce

falling into this category com-

pared with only 4 per cent of

Critics accuse employment

pessimists of ignoring the

vibrant, fast-growing informal

time black informal sector

The formal sector employ-

ment conundrum raises a ques-

tion that few South Africans

can the new South Africa

develop competitive advan-

tage? Primary sector activities

the whites,

South African businessmen acknowledge that they cannot expect to match the Asians in terms of costs, work ethic or productivity. Their competitive edge ls in resource-intensiva activities, low-cost energy, a superb infrastructure and in services such as banking and information technology. In manufacturing though, competitive advantage will depend on investing in skills, technology and training and since this kind of investment does not yield quick returns, success in manufacturing is more likely to be found in niche operations than in any single industry.

Even if the foreign investor is satisfied that the country has put political violence and instability behind it and has the capacity to develop competitive advantage in specific areas, the nagging question remains: wby should South Africa be different from the rest of the continent?

Mr Keys brushes all doubts aside. "South Africa is totally different - always has been, he says, putting his finger on what few would dispute is the country's single most important advantage - its powerful, battle-hardened, diversified private sector. "We have" be says, "a lot of indigenous capital here making a return and

POLICY

war to consensus

WHEN Derek Keys took over as South Africa's finance minister in May 1992, one of his key priorities was stopping the economic "civil war". It is a measure of the progress made towards achieving consansus on economic policy that he can a now pronounce this "done".

Certainly there will continue to he disputes between the main political players, business and labour. The past two months have offered ample examples: the issue of cellular telephone licences, a rise in the petrol price, trade union rights under a future constitution all these elicited threats from the ANC and its trade union ally Cosatu (the Congress of South African Trade Unions) ranging from mass action and a national strike, to nationalis-

In the event, deals were struck and disruption avoided. This represents enormous progress. In the past economic disputes often ended in mass action and conflict. Now they are managed, and a satisfactory resolution is normally achieved. It is a fair guess that this spirit of compromise will inform South Africa's economic policy under a new gov-ernment. Mr Keys comments: There is always a way' - for

this job, that is my motto."
If praise is due, than Mr Keys stands at the front of the queue. Mnre than any other factor, his skills as manager and deal-maker, coupled with an engaging personality and intellectual authority, account for this change.

Considerable assistance, however, has also coma from other quarters. Most obviously, the National Economic Forum (NEF), the tripartite body where husiness, government and labour seek agreement on economic policy, has performed a critical role. The ANC has also played its part with Mr Trevor Manuel, head of the Department of Economics and Planning, spearheading a more flexible and considered approach to economic policy.

The results are impressive. Recent months have seen South Africa make significant economic commitments, all of which enjoyed multi-party sup-

These include signing a final debt rescheduling deal, which runs for eight years; agreeing the terms of an \$850m loan from the IMF; agreeing the terms of a revised offer to GATT, whereby South Africa's

tariff book will be substantially simplified and the average tariff lowered; and agreeing the terms of future relations with the World Bank.

To ensure that South Africa's commitments in these areas enjoyed the necessary political legitimacy, Mr Keys established an ad hoc committee, the Economic Technical Committee (ETC), on which government, the ANC, PAC and Inkatha were represented. In all four of the above cases, the ETC agreed the final terms.

Tensions still exist between roughly - the ANC/Cosatu

nomic sanctions in September, he still continues to "invite" investors to come to South Africa to "help", as if that were their main concern.

Domestically, the economic focus of an ANC government will be on a programme of "national reconstruction", with the aim being to visibly uplift the lot of its followers. This will hasically be a case of "more of the same" since the past three budgats have already had a heavy emphasis on redistribution, with essentially tha same purposes in

In the past economic disputes often ended in mass action and conflict. Now they are managed, and a satisfactory resolution is normally achieved

on one side, and government/ business on the other but the crucial differences are the way in which these issues are han-

The latter is testimony to considerable policy movement from tha ANC in particular. Certainly, the organisation and some of its leaders have not totally shaken off their socialist vision. Both Mr Mandela and Mr Ramaphosa, ANC secretary-general, have let the dreaded nationalisation word slip in the past two months. But, as nne commentator noted: "The movement is clear, if not always convincing - but

it's not a trick." Currently, the ANC is best characterised as being a reluctant convert to market economics. If it has left behind the days in which it was firmly committed to nationalising the mines, banks and "commanding heights" of the economy, it still retains a touching faith in the state as a powerful agent to do economic good. It remains as sceptical as ever, however, of Adam Smith's invisible hand. The search is on, therefore, for some sort of "third way", with countries such as Germany and Sweden, notwithstanding their respective diffi-

culties, cited admiringly. Although some ANC spokes man have started increasingly to say "the right thing" - justifying, for example, their commitment to a vigorous antitrust policy in terms of the need to promote the efficiency

of markets - some doubts remain. Thus, while Mr Mandela has taken to vigorously beating the foreign investment drum since calling for the lifting of eco-

While this envisages a heavy role for the state in areas such as publics works programmes, this should take place within reasonable fiscal limits. Not only is the ANC on record as saying macroeconomic balance must be maintained, but it has also acknowledged that South Africa is already highly taxed. It is committed, in terms of the IMF loan letter of intent, to limiting the budget deficit (6 per cent of GDP is the target in 1994/5). There is also little evidence that a new government will interfere with monetary policy, though business is likely to lobby for some let-up

Of privatisation, little is likely to be heard. While commercialisation of state corporations - notably Posts and Telecommunications and Transnet - is under way, tha ANC remains set against the concept. Mr Keys's judgment is that "the final step to privatisation will require substantial disappointment with other

routes first". A much more difficult longer term question facing a new government will be the restructuring of trade and industrial policy. Sanctions, and efforts to combat them, have left some areas of the economy uncompetitive in the international market.

Mr Eugene van As, executive chairman of pulp and paper group Sappi, cites the example of the truck that draws up to his factory gate: it probably costs 100 per cent more than the price his international competitors pay, the tyres are probably 30 per cent more expensive and the spares dou-ble the cost. He adds that if he

were able to buy five chemicals at the price his US compelitors pay for the same products, he would virtually double Sappi's earnings.

Ironing out these distortions in the economy will take wisdom, time and sacrifice. How much is available is unclear. Whila Gatt has said it understands South Africa needs time to address these problems, this has not stopped it rejecting what it regards as excessive tariff protection for South Africa's beleaguered clothing and textiles sector (proposals of 60 per cent for clothing and 45 per cent for household textiles under the latest Gatt offer).

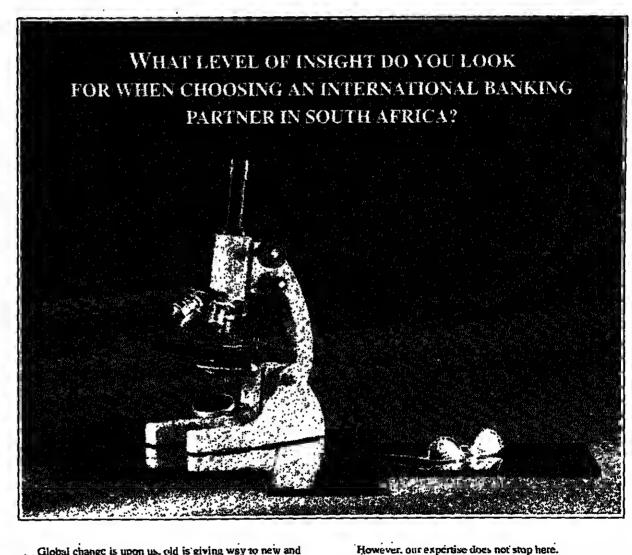
In terms of its other international economic relations, a future government is likely to take a fairly robust stance. The ANC/Cosatu, for example, has made clear that it has un taste for a supplicant relationship with the IMF and World Bank with economic policy decided in Washington, Current economic policies are broadly consonant with IMF norms, and no World Bank finance is expected much before the end of 1994. Funds for development are available locally; the priority now is to work out how these should be spent. Only later will the need for Bank

finance emerge. The other two important relationships will be with the European Union (EU) and neighbours in the region.

The former is important because South Africa does not belong to any economic grouping, and the EU is its largest trade partner. It looks unlikely that South Africa will accede to the Lomé convention, which offers concessionary trade terms. More likely will be some sort of hilateral framework agreement which can be negotiated much more quickly, while also offering substantial

market access benefits. As to the region, a new government will probably want to join the Soutbarn African Development Community (SADC), if only to show solidarity with many of its allies in the frontline states.

Present indications are, however, that co-operation is likely to focus initially on functional issues such as power and transport with more grandiose visions of economic integrations lying some way further in the distance.



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SOUTH AFRICA'S business

community is either foolish, or

possessed of great falth.

Whichever the explanation, it

is difficult to find a senior busi-

ness executive who is not opti-

mistic about the future. Considering the seismle changes

occurring in the country, this

In part, businessmen are

simply talking to their bcok. Businesses will stand or fall

depending on how the coun-

try's fortunes way or wane.

With the alternative too

ghastly to contemplate, they

choose, understandably, to

There is also the punch-drunk factor. Business-

men reason that having lived

1980s, there is little left to fear.

Then business was faced with

a government that did not care

a fig for it, in a country exper-

lencing serious domestic politi-

cal unrest, and pariah status in

the International world. Can

Clearly they can, and it

would be wrong to suggest that husiness is possessed of a facile optimism at odds with events

in the country. Indeed, there has bardly been an annual

report issued in the past two

years where the detrimental

effects of violence and political

instability on business has not

been lamented. But people rightly treat the possibility of

uncontrollable violence as a

Families living in shacks in a

river flood plain in the Eastern Cape city of Port Elizaheth are

being moved there en masse.

But this is not the dawn buli-

dozer raid of the old South

Africa - the squatters are going, voluntarily, to set up

home on a plot of land which

Another shanty town, in

Welkom in the Orange Free

State, is relocating to a new

settlement nearby which they

have called Vukuzenzela - in

translation, "Wake up and do it yourself."

The name is apposite,

because the squatters are not

being rehoused. What they get

is a "serviced site," with at

least water and sewerage laid

on. The building work is up to

them. The two are among the

100-plus such projects around

SOWETO-ON-SEA. settlement has been dubhed.

things get worse?

lcok on the bright side.

is an amazing state of affairs.

THE nu

fighting

SOUTH AFRICA: OPEN FOR INVESTMENT

Philip Gawith finds that business is looking on the bright side

Starry-eyed optimism

on advancing the lot of black business, could make onerous demands that seriously impede the ability of companies to operate freely.

But this scenario is not given much credence in the business community. With the country just emerging from a four-year recession, businessmen are not about to let politics quench their ardour. Although some companies reporting recently have turned in good results, through and survived the this has in most cases been due to extraneous factors, such as a weak exchange rate and lower corporate tax, or eimply

running a tight shlp. But although trading conditions remain grim, business is keen to whet its lips again coking to the rise of more than 30 per cent per annum in corporate profits in the late

This optimism explains why the South African Chamber of Business's (SACOB) confidence index rose to a three-year high in October.

However, there are some who believe next year's trading conditions will be poor because of disruption during the elec-Time could prove the busi-

worst case scenario and plan from a more optimistic premness community to be starry-eyed in its benign assess-More plausible a scenario is ment of the impact of political that a future government, set change. This optimism, how-



again on the world stage

evsr, is not baseless. While business and the ANC may not yet have reached the position of being ideological bedfellows, the toenndering (coming together) that has taken place has been remarkable ANC leaders' diarles are chock-ablock with appointments to breakfast, lunch or dine with husinessmen. Businessmen, for their part, are not averse to letting slip that they are on first name terms with ANC

ieavyweights. Indeed, oue of the more interesting features of the "new South Africa" is watching how companies try and position themselves for the future. Lining up in the robust

corner is Anglo American, ferent views on bow they relate with politicians, so they South Africa's largest comtake different approaches to pany, which has always folhow they should respond to lowed the edage "We don't want to be loved. We want to change. All businesses, of be respected". To its credit, it course, are required to take a closer look at "soft issues" has never been afraid to stand such as affirmative action, up and be counted and there can be little doubt that this has black advancement and social responsibility programmes, horne fruits. In the area of anti-trust for example, while safe in the knowledge that a the jury is still out on what new government will pay more sort of policy South Africa will attention to these issues. eventually get. Anglo's muscu-Although politicians may lar defence of its size has never be satisfied with husihelped focus and improve the ness efforts, there can be no quality of debate. doubt about the considerable Others, however, favour the time and effort going into

softly-softly approach, down-playing deficiencies in ANC these areas Beyond these issues, howpolicy and not seeing all differ ever, the scope to do business ences as issues of principle differently depends to a large that need to be confronted. extent on the business you are in. With production driven Businesses normally arrive at this perspective by two differhusiness such as mining, the hasic process of pulling ores ent routes. Some have genu-inely good relations with the ANC, the product of commendout of the ground and shipping them to foreign markets able liberal track records and a remains fundamentally the helief that they are dealing same, regardless of political with "good" men. Others are and social changes. Not so, opportunistic, jumping ship however, for companies that after years of obeisance to the interface more closely with the National Party. This is not necconsumer. Here the battle is on ssarily a bad thing. They may to capture the spending of the lack principle, but they are emergent black consumer and "operators" and their willingthis produces distinct chalness to engage with the ANC lenges in product development. has played its part in selling the case for business.

The consumer market, of course, is not the only growth market of the future. Indeed,

that of many in the private sec-tor who insist that institutions

with the financial clout which

could make a tangible differ-

ence, notably the life assur-

ance offices, have a fiduciary duty to their shareholders or

policybolders which would not

allow them to justify investing

But the market is at least

optimists are inclined to argue that political democratisation will unleash enormous benefits for the economy as a whole. Mr Grant Thomas, executive chairman of consumer industrial group Malbak, comments: 'South Africa's huge advantage is that enormous multiplier effect within its own bordsrs, greater than anywhere except China and the old Soviet Union. The market traditionally only served 20 per cent of the people

For South Africa's larger companies, a key benefit of political reform is that it has again allowed them to play on the world's stage. Mr Brian Cilbertson, chairman of Gencor, comments: "If you have a good product you don't just stay in your home town." South Africa's large corporates were. during the eanctions sra. severely hamstrung.

But the catch-up process has now begun. South African minhouses are swarming over the rest of Africa and in parts of South America and Europe, while industrial companies like Sappi and the then Royal Foods (now Del Monte International) have made large offshore transactions. Exchange control remains a considerable impediment to the internationalisation of activities, but South African companies are at least part of the hunt again.

While change is the word on the minds of most businessmen, others also see a large sure of continuity - if not in the way they do business, then certainly in the challenges that face them.

eigners too much scope to

exploit the country's dual

exchange rate system. Preventing defaults on mortgages may be less easy, but at least there is supposed to be an incoms stream to repay an investment outlay. What of education and health, where no such evident return exists? Even here, schemes are being examined. In tertiary education, for instance, a loan fund has been mooted along the lines of a model being explored in Australia. Borrowings would be repaid from students' eventual earnings, dehited directly, and the fund would bscome self-sustainable as

these flows gain pace. Outside agencies will now play a greater role. The World Bank and International Monetary Fund themselves arouse both hopes and fears, given the stringency of their prescriptions in the rest of Africa. A letter of intent between South Africa and the IMF is ready for signing next month (but loans from the Washington institutions are in the main thought likely to be used initially to refinance existing bank borrowings rather than provide a slew of new development cash.

In a recognition of the scals of the task, Derek Keys says large-scale community upliftment "needs an entrepreneur maybe it needs 10,000 entrepreneurs - to organise. I hope a representative government is in a better position for that than our government."

Retailers woo black buyers

CONSUMERS

"CHOOSE BLACK Like Me" exhorts a poster at the World Trade Centre, the Johannesburg venue for the multi-party talks. But it turns out to be addressed to the consumer rather than the voter, advertising nothing more epoch-making than a range of hair care Black consumers, particu-

larly those in urban areas, are

becoming the focus of the South African retail sector in recognition of the sheer size of the market and the expectation that wage differentials with whites will continue to narrow. On average a black house hold still has an income only one sixth of that of its white counterpart, is likely to have more offspring to support, as well as dependent members of the extended family often living in rural areas. A survey by the Bureau of Market Research

hlacks commit 7.5 per cent of their household expenditure to the support of relatives. This compares with only 0.2 per cent for those living in the quasi-independent "bomelands" who are more likely to be reciplents of remittances

at the University of Sonth

Africa shows that metropolitan

from city breadwinners. Given such burdens, oppor-tunities for discretionary spending - and for those busi nesses seeking to attract it seem limited. Holidays, for example, absorb a bare 0.3 per

cent of black outgoings. So, it is no surprise that the South African retail and consumer products industries have most conspicuously recrientated themselves to urban blacks in sectors such as food which takes 20.4 per cent of beir housebold spending), clothing and footwear (8.1 per cent), alcohol (6.5 per cent) and tobacco (4.8 per cent).

Edgars, the clothing chain with nearly a fifth of all sales in its sector, now has close to half its revenues coming from hlacks, according to a retail industry analyst at a stockbroking firm.

Blacks now consume some 80 per cent of all lager drunk in he country, shifting away from home-brewed sorghum beer and helping the near-monopoly South African Breweries (SAB) maintain volumes. Checkers, the supermarket

chain which merged with Pepcor, owner of the down-market Pep clothing shops, has converted many of its stores into cheaper-line Shoprite outlets and held prices down.

Mr Mervyn Serebro, managing director of OK. Bazaars, says: "Our customer is now the emerging nation. There is no embarrassment in saving we are not in the crayfish and caviar husiness." OK is targeting middle-income blacks rather than the "fringe of affluence," of whatever colour.

tan newspaper, conscious of the need to establish their brand while there remain few black-owned companies with the capital to compete. Billboard campaigns in particular convey the imagery of egalitar. ian multiracial bonhomie which exists more in the minds of advertising agency creative departments than on the street, beach or bar terrace which form their backdrops.

At the same time, though some companies have pursued particular strategies to boost demand among hiscks. CNA Gallo, which runs a chain of newsagent/stationers as well as cinemas and a record label, has become the largest seller of postage stamps apart from the Post Office itself. This is not because that business is itself lucrative - rather, it gets blacks coming into its stores, previously an apparent preserve of white reading matter.

Malbak, an industrial group which has interests in food, harmaceuticals, packaging, furniture and appliances, has examined each of these sectors to see where potential black demand offers scope for expansion. For example, it is placing emphasis on the supply of generic drugs which are cheaper than their proprietary equivalents - the Unisa survey shows urban black households allocate as much as 20.7 per cent of their spending to medical and deptal needs.

Ready

Still in

Mr Grant Thomas, chairman of Malbak, argues: "If you look at the new South Africa, where will the money be spent? Housing, health; transport, education. If you build a house It will have at least one plug. Then look at what they want: lights, TV, fridge, cooker." Beyond that, the family would be likely to buy packaged foods once they have a refrigerator, thus needly covering two more of Malbak's bases.

With demand for household durábles such as fridges at near-saturation among whites, the source of growth for electrical goods manufacturers and retailers is clear. Rapid urbanisation following the abolition of the restrictive pass laws in the 1980s has brought around half South Africa's hlack population to the cities.

As electrification of the townships progresses, and some residents trade up into previously white inner-city areas, black spending should help fuel a consumer-led recovery if one takes off. Baring Securities estimates that overditure, which has begun to revive this year, will grow by 2 per cent in 1994 and add a percentage print each year

> Gordon Cramb and Philip Gawith

DEVELOPMENT

Expectations may be too great

the country undertaken by the Cape Town-based independent Development Trust since it was launched in 1990 with the political endorsement of the African National Congress and Inkatha and R2bn of government money. Further project funds have since come from other donors such as the Euronean Community.

The IDT bas spent some R850m establishing more than 110,000 sites, in the process becoming the biggest provider of new homes without ever having built a house. The number represents nearly 10 per ceot of the 1.2m households it

hanges throughout Southern Africa

are creating exciting new business

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NEWSLETTERS

SOUTHERN AFRICA

BUSINESS INTELLIGENCE

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estimated had no proper roof over their heads, no mean feat in three years. But that figure is rising as blacks gravitate towards the cities to seek elueive employment, and the trust's "toilet towns" - that is their sole fitting - are barely holding the line.

Some 10m people are without drinking water at bome, 15m lack sanitation, and 23m have no electricity. The IDT estlmates that the country is short of 50,000 classrooms, a number which it expects to double by 2000. Some 1,000 more primary health facilities are needed. Redressing this legacy will

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SOUTHERN AFRICA

and changing buying palterns, to Zimbabwe's

This newsletter regularly examines all the

Eskom, the state-controlled electric utility, for example has a five-year programme to electrify 1m households, and new connections are running at 25,000 to 30,000 a month. However, this still leaves some 30 per cent of bomes without

be a daunting task.

Just as companies take dif-

tional administration. Mr Derek Keys, finance min-ister and former head of mining house Gencor, says bluntly of the country's social infrastructure needs: "I don't think the market is going to do lt." HIs downbeat view echoes

power by 2000, beyond the fivein or lending to ventures where the risks are large and year life of next year's transitbe returns uncertain. trying. Mr Steven de Bruyn, assistant general manager of UAL, the merchant banking arm of the Nedbank group, says ways need to be found to

make the risk palatable. These would often require government involvement, say in setting up a US-style mortgage guarantee fund so home loans could be extended to those without the financial track record which usually only whites can meet. Such a loan book could then be securitised. This is not too far a jump from the capital markets issue which UAL this year put together for Eskom, the state electricity supplier, to fund its electrification programme almed mainly at black residen-

tial areas. The R590m first tranche was fully subscribed locally after the Reserve Bank deemed the detachable warrants on the bonds allowed for-

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Philip Gawith looks at the financial rand, the investor's torment

Disliked but 'still necessary'

NEXT TO violence, political instability and concerns about ANC economic policy, what investors like least about South Africa is exchange control. In fact, outside of a few lawyers and tax advisers, it is difficult to find anyone who likes it. Even the Reserve Bank, which administers the policies, never tires of saying that it would like to rid the

country of this albatross.

Earlier this month Dr Chris
Stals, governor of the Reserve Bank, commented: "An early end to the dual-currency sys-tem is not in the offing. He also noted, thet "the financial rand will remain as long as the domestic political and social instability ... continues". With South Africa facing an

election on April 27, 1994, and the immediate aftermath a great unknown, few believe the financial rand will go before the end of 1994 at the earliest. While most exchange control

regulations are aimed at stopping people taking money out of the country, it is the dual currency system that most affects foreign investors. In terms of this system South Africa has a commercial rand. the official rate of exchange used for all normal commercial activities; and the financial rand which is basically a currency for non-resident investment or disinvestment. The aim of the financial rand

is to protect the country's foreign reserves. The system is designed to ensure that when foreigners repatriate their investments, they do not do so at the expense of the country's reserves.

Foreign investors need to pay close attention to the financial rand as it is a highly volatile currency easily capa-ble of negating any gains made

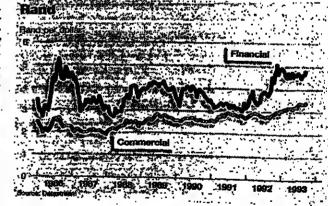
ties or bonds. Indeed, many foreigners suffered heavy losses in the eccond half of 1992 when the currency weakened dramatically. Although turnover in the market has increased, it remains a very cult to predict, and easily

moved by a large order. Financial rands are created when a non-resident sells his South African investment to a South African. He must be paid in rand, which rands are then deposited in his account with an approved dealer in foreign exchange (all of the main banks). Once in his account, the rand hecomes financial rand which can only be sold by the non-resident owner to another non-resident against

payment in a foreign currency. By definition, residents can never own, and hence sell. financial rand (though, in very limited circumstances, locals may use financial rand for off-sbore transactions). Residents are also not allowed to huy financial rand as this would require foreign exchange - precisely what the system is supposed to avoid.

In considering when the financial rand might be abol-ished, it must be remembered that this subject is inextricably bound up with South Africa's debt standstill arrangements. These were introduced in 1985 and covsred the country's repayable foreign debt (then \$13.6bn, now down to \$5bn in terms of a final agreement reached last September). The government's position

was that it would have been unfair if a restriction had been placed on repayment of foreign deht at thet time without also restricting the repatriation of foreign investment in South



have led to undestrable arbitrage transactions - hence the introduction of the financial

Likewise it is most unlikely that the Reserve Bank will scrap the financial rand system while foreign creditors remain subject to a debt repayment scheme. The latest scheme is due to run for eight years. For South Africa to consider ending it before then - that is, repaying the affected debt will either require that it manages to roll over a substantial amount of the \$5bn still subject to the scheme, or that its

where it feels they can withstand a sizeable capital outflow. Current levels, which cover only about six weeks of imports, are a long way short of the required level.

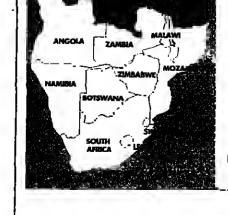
The best indicator that the financial rand is ripe for abolition will be when the discount to commercial rand, currently about 20 per cent, either narrows considerably or disappears altogether. This is unlikely before South Africa is seen to have achieved a stable and sustainable transition.

Philip Gawith

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of more than 20 reactors. At the very least Russia is likely to need World Bank belp if it is in ths Ukraine, unable and

and western nuclear surroan of Mr Remy Carle, chairman of the WANO governing board and deputy general manager of Electricité de France, told the

economy, supplies or fuels and other factors over which the nuclear industry has

Playing hard to get

NOW that the sanctions have the year and South Africa also been lifted and agreement has been reached on its repayment of the \$5bn of foreign debt caught in the 1985 standstill only the elections in April stand in the way of Sonth Africa's return to the international capital markets.

The second of th

However, since it has been shunned by the international investment community for so long, South Africa is playing hard to get with the numerous banks that have come court-

Although the gold and foreign exchange reserves have fallen, there is no urgent need for South Africa to raise funds internationally. An \$850m loan facility from the International Monetary Fund (IMF) should be forthcoming by the end of

has access to short-term credit lines from several banks.

Nevertheless, bankers expect South Africa to launch its first international bond issue since January 1992 after the elec-South Africa is likely to test

the waters with a Eurohond issue denominated in D-Marks. If the D-Mark Eurobond issue is successful, South Africa will then consider an offering in the higher-profile eurodollar sector. Offerings from parasta-tal issuers are likely to follow. The main bone of contention is the interest rate South Africa would have to pay to raise funds in the Eurobond

market. Borrowers who want

to raise funds in the Eurobond

market have to pay a "spread

the domestic government bond market. The size of the yield spread is determined by the market's perception of the bor rower. The bigger the spread, the riskier the borrower.

Bankers say that as long as South Africa is classified as an emerging market it will have to pay a yield spread of between 225 and 275 basis points over underlying government bonds. This is well above the yield spread of around 175 basis points which South Africa is prepared to pay.

As a result, South Africa could refrain from coming to the international bond market until the pricing issue has been

Antonia Sharpe

UNITED STATES

Ready but not yet willing

AFRICA'S constitutional agreement will intensify US corporate and investor interest, but few American companies seem likely to move quickly into the

Mr Jonathan Huneke, investment policy manager at the US Council for International Business, which represents some 300 multinationals, thinks they will re-enter "very cautiously, very quietly and very slowly

More than 200 US companies left South Africa in the 1980s, under pressure from state and local government economic sanctions, which will take time

With a constitutional agreement in prospect, many US companies have been examin-

ing options in South Africa. Mr Tony O'Reilly, head of foods group H.J. Heinz, travelled to the country two years ago on an initial exploratory trip.

A few companies have

already taken the plunge. The Investor Responsibility Research Center, a Washing ton-based monitoring group, reckons that at least 28 companies have gone into the Republic since mid-1991. Large Wall Street brokerage

houses and fund management groups, which stopped bandling South African securities in the 1980s are also preparing to get back into the market. Yet despite this surge of interest, most American corporations remain wary of a significant exposure.

There remains a lingering distruat of the African National Congress, and there is concern about the stability of the country after next year's

Analysts say these worries mean that many US companies will re-entar the market through cautious routes - such as exports, joint ventures and licensing agreements - and many will seek partners in the

black community.
The same concerns mean that large US fund managers, who have been snapping up stocks in so-called "emerging markets" in Latin America and Asia, may be leery of rushing into South African securities.

Martin Dickson

Still in courtship phase

been a significant trading part-ner for South Africa the strength of that relationship has not been matched by high levels of investment. --

"There is an awareness that Airica is market," says Mr. Sota Sakai, manager of the Middle East and Africa Section at Marubeni, the trading house. "But when it comes to investment, this is like a marriage so it will take more time to reach that point," he notes.

While Japan was South Africa's fourth largest trading partner in 1990 after West Germany. Great Britain and the US, due to international sanctions there has been no Japanese direct investment in

ALTHOUGH Japan has long South Africa for at least the past 10 years, the ministry of finance says.

The political situation is still a strong concern. The Japan Bond Research Institute, gave South Africa a 5.9 general ratwhich was up from 5.4 in January and 4.0 in January, 1989. The Institute attributed the higher ranking to the positive aspects of the government's fiscal and monetary policies as well as enhanced international trust in South Africa.

Geography is also a problem. Japan is not that internationalised yet," explains Mr Sakai. Japanese businesses also believe that the entire business environment in South Africa needs to be improved before

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Anthony Garnett

the country can expect to see a significant influx of investment from Japan.

Greater communication between the two countries is also necessary before Japanese businesses are likely to feel comfortable with the idea of investing in South Africa. For much the same reasons, there is little interest in Japan in South Africa's capital markets.

Meanwhile, the activities of Japanese banks with regard to South Africa have been frozen since the country declared a debt standstill in 1985. It is believed that no new lending will be forthcoming from banks, Japanese or other, until that situation is resolved.

Michlyo Nakamoto

of wait

the South African market but they are also acutely con-

The attractions lie in the

danger of nationalisation."

As the BDI, the Federal Association of German Industry, put it in a memorandum last month, the next govern-ment in South Africa will face massive challenges in restor-

That government may indeed find itself on a collision course with the expectations of the hlack majority.

countries of the former eastern hlock. China and other marcentral part of many Germany companlas' madium-term

That said, German investnesses or subsidiaries of large country, employing 50,000 peo-

German investors and tradepartners are well-liked in South Africa - not least because German companies adopted a pragmatic approach

be reciprocated further until South Africa offers a degree of stability to investors.

FRANCE

A dip in uncertain waters

A DELEGATION from the French employers federation was in South Africa last week to restore the country's position in South Africa's econ-

omy.
The political turnoil and violence of recent years, coupled with strong French government backing for international sanctions against apartheid, had the effect of reducing France's share in foreign direct investment in South Africa from 8.6 per cent in 1980 to

around 2 per cent today. Recent negotiation between South Africa and France of treaties on reciprocal protec-tion of investment and avoidance of double taxation should encourage more French companies to dip their toes in South

African waters. It is to help smaller French companies in the South Africa market that the French Patronat employers federation and the Industrial Development Corporation of South Africa last year set up a joint organisation, aimed at modarnising South African industry and developing higher value added exports by South Africa. There has long been a tradi-

tional French interest in South African gold stocks. Several South African gold stocks are quoted on the Paris Bourse and, for example, a majority of the shares in East Rand Proprietary Mines (ERPM) are held by French individuals, accord-

ing to one French banker. "But this traditional interest in gold has not spread to other South African shares," the banker says. The latter are relatively expensive, with a high price/earnings ratio, he says. This is due to the controls on capital movements which mean that South African investors have difficulty investing

But the French investor's main worty says Mr Christian Graeff, leader of last week's Patronat delegation, is "the current image of violence and the prospect that there will be no coherence in policy for some time to come

GERMANY

Purchases

Net purchases

Up to October 31

BACK in 1986 when sanctions

began in earnest, the US sold

and Europe bought. Now, at

least as far as the Johannes-

burg Stock Exchange (JSE) is

concerned, the positions are

reversed. Europe is cautious,

Down on Diagonal Street.

home of the JSE, brokers

groan pleasurably at the stam-

pede of US investors knocking

on their door - a veritable Wall Street who's who. Of

course, the US presence on the JSE has already been highly

visible in 1993, being largely

responsible for driving the bull

markets in bonds and gold

shares. But since ANC presi-

dant Nelson Mandela called for

the lifting of economic sanc-

tions in September, interest

has soared. Once limited to

speculators, bedge funds and

specialists, especially on the

gold board, the heavy artillery

is massing just over the brow.

It will be some time yet

before the debris of US state

and municipal sanctions is

finally cleared, and fund man-

agers who are responsible to

trustees will keep a watchful

eye on political developments

before making any significant decisions. The view on Diago-

nal Street, however, is that it

is now a question of when,

rather than if, funds flow. A broker commants; "If you

aggregate the figures we've

heard, there'll be a lot of sheep

trying to get through a very narrow gate." One Hong Kong

fund manager visitingJoban-

nesburg said he was convinced

investors would drive the

price/earnings retio of the JSE

from 15 to 25, as they have

As JSE-watchers point out, it

is hardly a typical emerging

market - more than 100 years

old and with a market capital-

isation of about \$145bn (at the

financial rand exchange rate of

R4.30/\$1), It is one of the 10

largest in the world. There are

about 80 stocks with a market

capitalisation of more than \$200m, the cut-off point often

used by international fund

managers to identify stocks

they are prepared to hold.

Hence the preference among

analysts for describing the JSE

Two caveats need to he

for the JSE. First, if the main

international stock markets

crack, the Dow Jones indus-

as a "re-emerging" market.

with other emerging markets.

the US euphoric.

A game and see

GERMAN businessmen are well aware of the potential of scious of the risks.

country's well developed industrial infrastructure, a cheap labour force and the market of 125m consumers in southern Africa. The downside is equally obvious and can be summed up in one word: insta-

"German companies will invest," commented a German diplomat in South Africa ear-lier this year at a trade fair to promote trade between tha two countries, "but only when the framework is in place: that means stability, a market economy and the removal of the

ing the country's economy.

For the moment German companias have less risky, highly attractive markets on their own doorsteps, in the kets in the far east are growing so quickly that they form a expansion plans.

ment in South Africa should not he underestimated: there are ahout 350 German busi-German companies in the

But that liking is unlikely to

David Waller

trial index in particular, then US Securities and Exchange Commission to launch The the JSE is sure to follow. Second, South Africa must achieve Southern Africa Fund - a

good investment advice," said

a senior cadre of the most militant grouping involved in South Africa's multi-party democracy process as he shook hands with a broker last week in tha Johannesburg Stock Exchange (JSE) building. The meeting, unthinkable three years ago, may suggest

to some that the Pan Africanist Congress is mellowing. It could also be read merely as a sign of bow politicised everything in South African commerce has become. Arguably it always was: investors prospered under apartheid and a claim by tha JSE, in a booklet aimed at blacks, that its record is "one hundred years of creating wealth for all South Africans will be found by many to be

But stockbroking firms, in a business as divorced as is conceivable from the daily realities of most people, now eagerly court all tha main black movements in the hope that they will be smiled on after next April

The very structure and operation of the JSE threatens to develop into a political issue. Indeed, if it does, this will at least in part have been at the instigation of the exchange itself, which set up a sub-committee 18 months ago to examine its workings "on the basis that South Africa is going through changes," says Mr Roy Andersen, JSE president. The sub-committee was

charged with examining the market's old-style system of individually liable brokers. trading on fixed commissions and only on their clients' behalf rather than also on their own account. Its report is in its final stages and due in February. Most local brokers think Johannesburg will not have a Big Bang - but there may be a "phased phut" in which many of the markat's traditional practices will be overturned David Buchan and new entrants allowed in.

The problem for an administration headed by the African National Congress will be that most of these would he entrants are the country's big banking groups, which have extensive equity links in industry and other financial sectors. Should a transitional government sanction a further con-

club of vested interests? There are further questions If banks, brokers, insurers and industrial companies are allowed all to come under one corporate roof, in a small financial community what prospect is there that Chinese walls will be impermeable? given a stake in their employment future, say through share option schemes as a means of promoting productivity gains, how will it look if dealing costs for small investors suddenly

Though Mr Andersen is coy about the contents of the report, leading stockbrokers think some sort of change is inevitable. The best guesses circulating in broking firms' offices above the Diagonal Street trading floor are that the JSE will at least initially remain an agency market but that a sliding scale will replace the 0.5 per cent standard commission - hecoming freely negotiable for trades over a certain size - and that firms will be able to sell a stake of perhaps 30 per cent to a corporate sharebolder.

Suggestions that the banks, if dissatisfied with the pace of change, might set up a screenbased dealing system for the biggest and most liquid stocks are largely discounted on regulatory grounds. But it is a stick which has at least been waved in the distance, and the JSE is believed ready to open up a

South Africa: Comparable pany. These funds could easily raise \$500m. \$500m The chief concern about any large inflow of funds is

closed end investment com

4,801

Foreign trading on the JSE equities market [Rm]

JOHANNESBURG STOCK EXCHANGE

A quantum leap

equity markets*

New Zealand

transition.

"Marketa ranked by market departmention, data Source, S.G. Warburg Sec.

cent of total world stock mar-

ket capitalisation, and most US

fund managers hold little if

any SA stock, it is reasonable

to assume a flow of funds.

Until recently, virtually no US

analysts followed South Afri-

can stocks. As they start to

cover them, so funds are likely

A recent study of 47 global

emerging market funds

(mostly UK and US) by the UK

group Micropal shows that as

at June 30, 1993, only 0.07 per cent of their \$8hn assets were

invested in South Africa. This

process will gather impetus

when Morgan Stanley develops a South Africa index for inclu-

sion in its world index, and

should the International

Finance Corporation grant the

JSE emerging market status.

(SA stocks qualify because

domestic per capita income is

The case for the JSE is con-

siderahly hardened by fairly

reliable talk of six to seven

South (or southern) Africa

country funds being estab-

lished. Alliance Capital Man-

agement Corporation, one of

the largest investment man-

agement funds in the US with

management, and backed by

Merrill Lynch, has already

lodged a prospectus with the

STOCK MARKET STRUCTURE

ut \$110bn of

below the \$7,910 cut-off).

cap (US\$bn)

Market Turnove

2,909

1990

2.544

(% of mict cap traded) whether the JSE, with its notoriously poor tradeability, can manage them. Latest JSE fig-ures show annualised liquidity at about 7 per cent, but in closer to 4 per cent. Figures from Johannesburg brokers Ivor Jones, Roy & Co show the most liquid domestic industrial stock, SA Breweries, has a monthly turnover of only \$12m. The most liquid stock, by a long margin, is De Beers, with a monthly turnover of about \$57m. The main cause of the low liquidity is exchange a relatively stable political control. South Africa's large institutional cash flows -Assuming these burdles are about R40hn per annum, of cleared, then the case for the which at least a quarter will JSE is easily developed. US investors and fund managers make its way into equities are forced to chase a small pool of domestic quality scrip. are looking to invest an Understandably, the good stock they get they are increasing portion of their assets outside the US to improve returns. Given the inclined to hold. If strong buy-JSE accounts for about 0.9 per ing pressures do materialise,

> will make it more volatile, and also boost liquidity. South African bonds will also attract attention, Real yields on long bonds of around 8 per cent for foreign investors compare favourably with the returns available in industrial countries, South Africa is a good risk not to default, the market is well organised and liquid, with more than \$1bn daily trading volume common, the bonds offer prospective capital gains from the fall in inflation, and there is the possibility of currency gains from the appreciation of the finan-

then the upward trend of

prices will help loosen stock.

The yield-driven, short-term

focus of some of the specula-

nive funds already in the JSE

cial rand. Investments on the JSE are done through the volatile financial rand, whose movements are capable of wiping out gains in the underlying investments. For investors coming into the bond market in particular, where volumes are quite large, they have to buy the currency before the bond. As one broker commented: "The currency leg is the narrow gate, not th Political stability will help stabilise this market, but investors should treat it with cau-

Philip Gawith

Unthinkable achieved

centration of economic power, which leading ANC members have long wished to diffuse, or should it give its blessing to what others will call a cosy

> rise relative to those of the big financial houses?

trading floor to ease pressure.

Changes are likely to come gradually, starting next year, and the mood will not be one of the Eighties London

bonanza. Although a large number of the 50-odd brokers will sell out to banks, the lesson has been learned from the fancy price/earnings ratios paid to City firms before the 1987 crash, says a partner in one Johannesburg securities house. He adds: "Those with the means or the products can survive" - as independent entities if they wish. This also appears to be the

wish of many of the country's fund managers. They are hy no means convinced that, in a thinly traded equity market, commissions on buying good lines of stock would fall - even for them. At the same time they are concerned that any squeeze on brokers' margins might force JSE member firms to cut research output which they commonly use in tandem with in house analysis. And they see their choice of broker potentially narrowed because some would have tied up with a rival financial institution "We want quality of service

- in dealing skills and research input - and we are more inclined to accept higher commissions to get it," says one, Whatever the outcome, as

free elections approach and the country's reconstruction needs are thrown more to the fore. hlack political groups are setting aside their old hostility to the exchange as an institution. While they are likely to have much to say in the coming year about how the JSE should conduct itself to the benefit of all South Africans, even the PAC's slogan seems to he changing slowly from the notorious "One settler, one bullet" to something which may be more like "One settlement, one bull market".

Gordon Cramb



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BI be hi SOUTH AFRICA'S return to legitimacy coincides with the

growing regionalisation of for-

with devaluation next year.

While few companies have yet rationalised their operations with the establishment of regional headquarters in South Africa, this is likely to be e pervasive trend, once the violence subsides and business confidence returns. BP is one company that will establish a regional headquarters in South Africa, while a number of manufacturing companies, such as Nissan, are known to be actively considering developing their South African fac-

Tony Hawkins looks at the industrial potential

Continental launchpad

tories as the platform for exporting into the region. The reasons are obvious; South Africa has the best infrastructure on the continent with first-world service indus-

try back-up in banking, insur-

South Africa is the only African market large enough to justify a broad range of manufacturing

ance, capital markets, botels and information technology. It has spare capacity in energy and transport, a vast pool of unskilled labour, a ricb natural resource base, a better skills endowment that anywhere else in Africa – though way behind Asian levels – and a large enough domestic market to justify most industrial investments. By African standards the environmeot is investorfriendly and there are few African locations that can match South Africa's quality of life.

South Africa's quality of life.

The disadvantages are essentially socio-political — political and criminal violence, allied with the worry that, even if they are papered over in 1993/4, ethnic tensions will re-surface later in the decade. Labour relations are also a possible reasoo for steering clear of

"THE CHANGES IN

THE WORLD HAVE

CORPORATION'S

AND OFFER THE

PROSPECT OF

CHALLENGING

AND DYNAMIC

RENEWED GROWTH."

PERIOD OF

Julian Ogilvic Thompson

Anglo American Corporation

Chairman

WIDENED THE

HORIZONS

SOUTH AFRICA AND

South Africa given the high cost of labour relative to that elsewhere in the region and far higher levels of unionisation. Against that is the relentless decline in the relative importance of direct labour costs in most business ectivities, with raw materials, capital and transport costs assuming far graater significanca. These costs are likely to be lower in South Africa than elsewhere in

sub-Saharan Africa.
International business is likely to adopt ooe of two main strategies for serving the African market in the 1990s:

It will export into the regioo from offshore using agents, licensees or franchisees as a vehicle; or

■ It will use South Africa as

the mode of entry, manufacturing or assembling in the country primarily for domestic consumption while exporting residual amounts to the region.

Clearly, neither strategy will work if African countries maintain tariffs and other barriers against imports. But with the march of economic reform, regional economies are being liberalised, thereby encouraging foreign firms to sell into the usually-tiny markets from outside rather than setting up shop behind high tariff barri-

ers as was the pattern in the

1950s and 60s.

There are two polar views of bow trade and investment flows will evolve in Southern Africa. On the one hand, the

locomotive theory bolds that South Africa will become the

By African standards the environment is investor-friendly and the

regioo's economic dynamo that helps turn the sub-Saharan economy around-

quality of life is excellent

The alternative school holds that South Africa, certainly for the immediate future, has more than enough on its domestic plate to make much of a contribution to the regional turnround. Indeed, there are even those in Botswana, Namihia, Zamhia and Zimbebwe who predict that relocation will, in fact, go the other way, with firms emigrating from South Africa to escape political violence and industrial relations unrest, and exploiting more tranquil labour market conditions—

and lower costs - elsewhere.

This is an unlikely scenario given the growing tendency for manufacturers to locate as close as possible to their main

markets. The more likely scenario is one in which South Africa becomes the platform for exploiting market opportunities in east, central and southern Africa. South African business is well placed, too, to participate in rebuilding the region's physical infrastructure, on which massive amounts – much of it aid mooey – will be spent. South Africa aside, there is little indigenous capacity in the region to handle major physi-

South African businesses will have the edge, too, in some African privatisation programmes – their investment banks and mining houses are already active in countries such as Mozambique and Zambia where privatisation moves are gathering speed.

cal infrastructural projects.

African leaders will be perturbed less at the prospect of growing South African participation in their economies, than with the potentially one-way traffic that this implies. Few countries in the region have much to sell to Pretoria other than raw materials (oil, copper coffee, cocoa, tohacco) and tourism. The saving grace though this will depend on close links with multinationals, often with regional headquarters in South Africa could be the development of sub-contracting and components manufacture for final assembly in the south. This would turn launchpad South Africa into a positive aum game in which there are win-

ners all round.

Germany

UK

Jepan

Didner billion

O Dollars billion

O Dollars billion

Sonick Party Segretas

Phllip Gawith discusses foreign investment

In search of recognition

AFTER the isolation years, South Africa's husiness community is enjoying being back in the fold, hoping the world will want to lend to the country, trade with it and, above all, invest in it. First prize would be a headline investment of the "IBM to build \$10n plant" variety.

plant" variety.

Clearly the optimists are going to be disappointed, for the time being. First, the world has changed. Before isolation, the eastern bloc and China were no-go zones and the Pacific Dragons had barely entered the business lexicon. Nor had South America embarked upon widespread financial liberalisation. Change

in all of these areas has opened a host of markets competing for the multinational investment dollar.

Second, save for special cases – such as investment flowing from the recent issue of cellular telephone licences – it is unlikely any significant investments will be made until it is clear South Africa has achieved a stable transition.

that nothing is happening. On the contrary, there is a farment of activity. Examples include: Alfa Romeo is again selling cars in South Africa and Volvo will soon be doing so: IEM is probably going to return through an investment in a local distributor, Hoechst has expanded its operation by paying R70m for a polyester fibre plant; Foodcorp has signed a deal with Pillsbury, Lufthansa has added an extra flight and is flying on a daily basis; ferrochrome producers Samancor and Nippon Denko have

formed a joint venture, while

Mitsui will distribute some of

This is not, however, to say

Sasol's chemicals in Japan and Korea. The list goes on.

So, while the headline investment may be absent, the incremental internationalisation of the corporate scene is proceeding apace. The main trend to be observed is as obvious as it is understandable: companies want to establish a presence, but without any significant equity commitment. As Dr Chris Stals, governor of the Reserve Bank, commented recently in Washington: "They're offering us their services, not their money." The deals one is hearing about are thus in distribution, licensing and franchising:

At issue here is not only the question of who will come, but how they will do it. Any future government is sure to have a very strong commitment to black economic advancement, a process that many US investors, in particular, are likely to want to support. Given the underdeveloped state of black chising (sectora with strong potential include hair care salons and fast food outlets) and joint ventures are the most logical routes of assisting this process. There are, for exam-ple, many small black business contractors, but often they will lack access to credit to buy materials and have non-exis-tent financial or administrative

The process of finding part-

ners, however, will not be easy.
Despite years of activity in this field, the US embassy is still not in a position to offer a list of potential partners.

According to the Reserve Bank, at the end of 1992 total investment in South Africa by foreign residents amounted to approximately \$30hn. This included repayable deht of shout \$15hn and about \$12hn of South African corporate equities and bonds issued by government and other public and private sector horrowers. About half of the latter sum is "direct" investment – in South African subsidlaries and branches of foreign companies — with the other half being invested by non-residents in rand denominated paper

("portfolio" investment).

During the sanctions years,
South Africa experienced a net
outflow of foreign investment
from the country as many companies, especially US ones, disinvested. The stock of US fixed
investment in South Africa
shrunk as a result by a third,
to roughly \$1bn and 110 companies. Although some UK and
European companies also left,
most stayed and already have
a presence in South Africa.
From an investment perspective, the Japanese and Asian

WILL

BATTHE AND

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presence is negligible.
Mr Derek Keys, finance minister, speculates that the order in which foreign countries will "carry the beton" when they return might be: US, Japan, UK and other Europeans. How will they be received by a future government? The key policy document in this regard is the "Agreed framework in relation to foreign direct investment", a product of the National Economic Forum; and endorsed by the ANC. This is largely a motherhood-and-apple pie affair, but points worth

ple pie affair, but points worth stressing are: • Realisation of the importance of stability and "consistent, credible economic poli-

The view that South Africa should not introduce special tax incentives to attract FDI, flie object rather being "the equal application of reasonably low corporate tax rates which

During the transition assurances will be provided on security of investment, foreign exchange policy, and minimisation of bureaucratic obstacles; Industrial incentives will be equally available to foreigners and locals.

TOURISM

Playground for visitors

ONE industry where South Africa seems certain to develop a competitive advantage is lefsure. Even under sanctions and with high levels of violence and political uncertainty. it is the continent's second largest tonriat industry, accounting for almost 26 per cent of regional tourist income, more than double Kenya's 9.6 per cent. In 1991, Morocco headed the African league with 24 per cent of tourist revenue. Globally, South Africa is a tiny player accounting for less than 0.25 per cent of the inter-national tourist business. Excluding African visitors, there were some 560,000 tourist arrivals last year, the bulk of whom (70 per cent) came from Europe, with the UK as the main market (26 per cent) followed by Germany (16 per cent) and the US (9 per cent). With a growth rate of 18,5 per cent in 1992, the Asian market — especially Taiwan (4 per cent) and Japan (15 per cent) — is becoming increasingly important. Growth accelerated in the first cents are cents. in the first seven months of 1993 with the number of arriv-

als increasing 12.7 per cent,
Overseas tourists spend an
estimated R4,800 (\$1,750) per
visit (excluding air fares to and
from the country) and the
industry earned R2.750n (\$10n)
in foreign exchange in 1991,
making it the fourth largest
foreign currency earner, after
manufactures, gold and other
minerals

Aside from the lifting of sanctions, the main factor making for tourism growth at a time of global recession has been the liberalisation of the aviation policies and the expansion of air traffic capacity. In the past three years, 18

new airlines have started services to South Africa. A more market-driven aviation policy has resulted in competitive market prices and the opening up of the charter market. The number of tour operators has more than doubled, while government has become more active in tourism promotion allowing accelerated tax write-offs for the accommodation industry, a R600m (\$180m) loan programme for Eco-tourism pro- 6 ts and support schemes

small entrepreneurs.
On the debit side, tourist perceptions of personal safety in South Africa have deteriorated markedly. In January 1990, some 70 per cent of overseas visitors rated the safety factor in South Africa good but by January this year, this rating had fallen below 30 per cent.

The government's target is to more than treble the number of arrivals by 2000 reaching 1.75m visitors earning some R24hn in foreign exchange. With hotels operating at below 50 per cent of bed-night capacity, there is considerable scope for expansion without significant new investment in hotels. Nevertheless, three leading global players — Hilton, Hyatt and Sheraton — have expressed interest in opening up in South

Tony Hawkins

■ With the Zebra project we are developing, in partnership with AEG and Daimler Benz, an environmentally clean high energy battery to power passenger vehicles in polluted inner city areas. A Mercedes equipped with a Zebra battery bas covered more than 45,000 maintenance-free kilometres and other major car manufacturers have requested Zebras for their own vehicle test programmes. A production development facility is being commissioned in Europe. The project demonstrates that industrial lead times can be as long as in mining and as dependent on a deep purse and steady vision.

Del Monte Royal Holdings extends our interests in the value added food business and will help to counter the cyclical nature of commodities. The new group, with the prestigious Del Monte brand name, is well placed to build on an already strong market position internationally and, in so doing, help expand the deciduous fruit industry in South Africa.

Dur international projects do not prejudice our investment programme in South Africa. Namakwa Sands, at a cost of R1 billion, combines our experience of large mining and industrial projects with important new technologies. Namakwa Sands is strongly export oriented and beneficiation will add considerably both to the value of the raw material and to

South Africa's foreign exchange earnings. Reserves are more than 500 million tons and the life of the project is expected to exceed 35 years.

The Moab gold mine, of great significance to our position as the principal world producer, is being developed at a cost of R1.7 billion and reaffirms our confidence in the long term future of gold. Over its 25-year lifespan Moab will yield up to 13 tons of gold a year.

The Columbus stainless steel joint venture at full capacity will produce 500,000 tons a year, making it the world's largest single-site producer of stainless steel. Columbus typifies the kind of project essential to South Africa's future growth. In turning basic commodities into highly sophisticated alloy steels for overseas markets it adds significantly to the value of South Africa's resource endowment and earns critically needed foreign exchange.

The capital cost of these three South
African projects, all geared to export, is
R5.5 billion, demonstrating once again
our long term commitment to South
Africa and confidence in its future.

ANGLO AMERICAN CORPORATION
OF SOUTH AFRICA



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NB POWER

the very least Russia is likely to need World Bank help if it is to proceed. In the Ukraine, unable and

Mr Remy Cara, the WANO governing board fuels a said deputy general manager of Electricité de France, told the

fuels and other factors over which the nuclear industry has

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LONDON STOCK EXCHANGE

Inflation news boosts base rate hopes

By Terry Byland, UK Stock Market Editor

Market Branches Land

AN UNEXPECTEDLY large fall in domestic inflation in October gave a significant boost to base rate optimism in the UK stock market yesterday. The FT-SE 100 Index moved strongly ahead, brushing off unimpressive UK retail sales progress, leaving the market to face its next hurdle this morning when it must respond to the outcome of the Nafta vote in tha US Congress.

A nervous start on Wall Street left London to close off the day's best levels, with the FT-SE Index finally 22.5 up at 3,120. Reports that a leading US investment bank had sharply downgraded its ratings on the Hong Kong stock market also upset London.

Tha news that domestic inflation had fallen to an annualised 1.4 per cent in October, from 1.8 per cent in the previ-ous month, contrasted with market expectations that the rate would be either unchanged or even slightly

A base rate cut of at least half a point - several analysts are going for a full point reduction - moved right to the top of the stock market agenda following the inflation announcement. Led hy a strong premium on the December stock index future, shares jumped sharply and took the Footsie to

a day's high of 3,126.1. The peak was held until Wall Street opened up sharply lower before steadying during UK trading

Interest rate optimism had already been encouraged by a rate cut in Belgium, although with markets closed yesterday in Germany, London analysts were taking a cautious view of the chances of a move by the Bundesbank at today's policy

years. The stock dropped 44 to 432p, a level last seen more

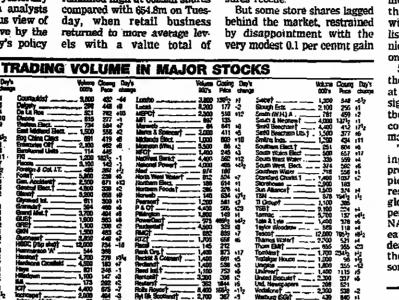
The fall followed a sharp rer-

The market's renewed optimism was reflected in further recovery in the FT-SE Mid 250 Index which gained 15.7 point

to 3.436.7. Seaq volume, again boosted by a large trading programme, remained high at 662.2m shares compared with 654.8m on Tuesday, when retail business returned to more average levels with a value total of

The focus turned towards the property shares, which have much to gain from further cuts in domestic interest rates, and to the bank stocks which will see their bad dehts reduced as interest rate pres-

sures recede.



in retail sales in October - sector analysts had looked for a rise of at least 0.3 per cent.

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FT-SE 1/20 250

FT-SE-A 350

FT-SE M00 250 er l

FT-SE 100

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The poor retail sales number cast a shadow elsewhere in the market, since it suggests that economic recovery is still lagging. Company trading statements continued to unsettle the stock market yesterday. with Courtaulds joining the list of leading British companies to receive rough treatment

on the stock market this week. Some traders warned that the sharp rise in share prices at mid-session had brought out significant selling orders from the bears which undoubtedly continue to ream through the

The opening of equity trading this morning could well present traders with a difficult picture as they struggle to respond to factors in other global centres. Wall Street's performance in the wake of the NAPTA debate will dominate early trading in London but dealers will also be watching the Hong Kong market with some apprehension.

Account	nealing	Dates
First Dealings: Nov 1	Nov 15	Nov 23
Option Declaration Nov 11	Nev 25	Dec 9
net Geatings: Ng. 12	Nov 26	Dec 10
Account Day: Nov 22	Dec 6	Dec 20

ter HK stocks under pressure

STOCKS WITH heavy exposure to Hong Kong suffered extremely heavy selling in a day of frantic activity generated by a significant shift in the trading position of Morgan Stanley, one of the leading US

Morgan Stanley, which was instrumental in driving Hong Kong stocks higher in the summer, yesterday cut its recommeoded international equity exposure to Hong Kong from 7

per cent to 5 per cent. Telecoms group Cabla and Wireless, which generates much of its income from Hong Kong, was hadly affected, the shares hitting a low of 470p before settling 17 off at 473p on turnover of 5.4m. C&W's interim figures are due this morning, with profits forecast to come in around 2500m:

Sentiment was further weakened by persistent and long running stories that the Chinese government's investment agency CITIC is poised to make n large placing in Hong Kong Telecom. C&W has a 57 per cent stake in HK Telecom, while CITIC holds a 17 per cent

1

5 A

shareholding. HSBC was also mauled, the shares aliding 18 to 734p on exceptionally heavy turnover of 11m. "There was a flood of selling and it looks as if there is more to coma," said one

Courtaulds shock

Savaging of the chamicals sector continued yesterday as disappointing figures from Courtaulds, one of the sector leaders, sent the company's shares recling on their highest turnover for more than 4%

NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (121).

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than a year ago, with 9.8m traded ating for BOC the previous The headline interim profits

from Courtaulds were up at £96.1m from £88.8m previously and market forecasts of around £87m. But the pre-tax figure contained an exceptional charge of £24.4m and once that was deducted the numbers were looking depressing, Furthermore, Courtaulds warned investment banks.

around £150m for the full year from estimates of £180m to £190m previously: Mr David Ingles of agency broker James Capel maintained faith in the company but said he saw the shares slipping to around 400p before they were worth buying again. Mr Martin Evans of securities house Hoare Govett eaid: "Courtaulds is dead

Hoare maintaining its buy

Strength in P&O

Reports that P&O was among a consortium intending to raise container rates on its eastern ehipping routes helped the shares make big gains in useful turnover of 4m. They

have a hig impact on P&O's balance sheet. Last year, the group made £36m profits from its container and bulk shipping interests. However, transport analysts tended to be sceptical, pointing out that the consortium had made attempts before to harden rates. "None of the price rises ever stick," commented one specialist.

Ladbroke hit

Further downgrades in Ladbroke, including one from joint broker SG Warburg, continued the downward revision begun by Smith New Court, the other burse broker on Tuesday. house broker, on Tuesday.

lysts were hinting at problems at the group's DIY husiness. Texas Home Care, there was consternation over the continuing downward pressure on the sbares. This was underlined by another good performance from Forte, the hotel group's ahares opening up their largest ever gap over Ladbroke, the two normally run-ning fairly in parallel.

In a strong sector, Ladbroke shed a penny to 156p, the low-est level for more than a year, in big turnover of 10m. Forte climbed 5 to 239p in turnover approaching 6m. The stock has been strong in recent sessions as talk of stronger London bookings have given hopes of improvements in room rates -

FT-A All-Share Index

that conditions would continue difficult during the second half, traditionally the best period for the company. Analysts brought their forecasts for the full year down to Sep 1993

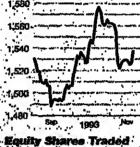
too late to sell and too early to BOC recovered 5 to 601p with

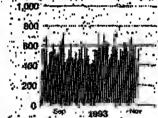
closed 23 ahead at 565p.

According to the reports, the consortium is to push up rates by 20 per cent, which would

Although most leisure ana-

newa that would normally





impact favourably on Lad-

Analysts are expecting furon a visit to France today to inspect the group's motorway service station husiness. A health scare in the Nether-

lands sent Unigate shares down 12 to 355p. Dutch food group Verenigde Bedrivjen Nutricia, in which Unigate holds a 32.6 per cent stake. announced that it was recalling a consignment of baby food that may possibly be contami-nated. As Unigate shares began to fall, hectic trading in Amsterdam led to Nutricia heing temporarily suspended. One UK food analyst said the recall could cost Unigate over £1m. Last year, Nutricia contributed 15 per cent of Uni-

gate's £108m profits. United Biscuits gained 6 to 337p, with Smith New Court rumoured to be a buyer. Dal-gety added 9 to 448p on news that it is in discussions to buy BP's pet food business.

Food retailers were the best performing sector, rallying from their recent bout of weakness. J. Sainshury jumped 14 to 369p and Tesco 8½ to 195½p. Property shares were again strong, lifted by results and a

positive statement from Land Securities, the UK's biggest property group. Its shares, strong following a James Capel huy note earlier in the week,

added 6 at 734p. MEPC advanced 12 to 510p, British Land 8 to 418p and Brixton

A reversal of recent switch-ing out of National Westminster and into Barclays saw the former's shares race up 12 to 560p on 4.1m traded, while Barclays edged up a penny to 585p

A single deal in TSB, where one UK house bought and sold a block of just over 2m shares, left the shares 4 higher at 224p with overall turnover reaching a hefty 8.8m. Pharmaceutical stocks bene-

fitad in early trade from a strong performance by the sector in New York on Tuesday night. Some gains were trimmed in the afternoon as Wall Street opened easier but Zeneca lifted 10 to 787p, Gfaxo was up 9 at 658p and Smlth-Kline Beecham gained 71/2 to 412p as concerns over a possihle difference opinion between Mr Boh Bauman, the chief executive, Mr Jan Leschly, the chief executive designate and

current head of the pharmacenticals division, faded away, Commercial Union jump 10 to 606p following the well-received third quarter figures, while General Accident, badly affected by below-par results on Tuesday, rallied 13 to 671p. Increased prospects for a cut

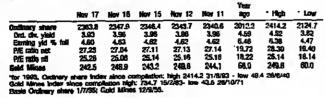
in UK interest rates after the latest economic data on inflation and retail sales led to a strong burst of buying in high yielding utilities stocks. in the regional electricity issues South Wales jumped 17 to 657p while Yorkshire rose 10 to 622p. Northern Ireland Electricity raced np 61/2 to 1991/p. The FT-SE 100's four water stocks made excellent prog-

ress. Anglian rose 9 to 515p

and Severn Trent 8 to 525p. The oil and gas sector's two cold weather stocks, British Gas and Calor Group, were the brightest performers in a gen-arally strong sector. Gas moved up 7 to 328%p, following a buy recommendation from Kleinwort Benson, who sald the recent fall in the shares was overdone. The broker said Gas now yields more than three-month money and that given Kleinwort's expectation of rising production profits and further cost cutting the stock is attractive.

Gas reports third-quarter results today. Kleinwort, along with most leading brokers,

FINANCIAL TIMES EQUITY INDICES



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EQUITY FUTURES AND OPTIONS TRADING

ECONOMIC data from the UK which suggested that any inflation worries were overdone sent the futures contract on the FT-CE 100 Index soaring yesterday as the market became convinced that a further reduction in Interest rates was needed, writes Peter John. Derivatives began wearily, digesting a very large trade in

Footsie options on Wednesday.

Then, the mid-morning news on the RPI sent December sharply forward, as hopes rose of an imminent rate cut. Sales

data, pointing to a sluggish recovery, also added impetus.
The optimism gave a boost to gilts and short sterling and pushed the FT-SR futures contract for Described to a bight of tract for December to a high of 3.142 shortly afterwards, a premium of 16 to the cash

points above cash.

One dealer said: "After the announcement everyone was buying. And with the NAFTA vote, a Bundesbank meeting and the Budget all just ahead of us, volatility is not going to

come down." Implied volatility, the indicator of market uncertainty strongly today.

market compared with an esti- priced into options, was said mated fair value of some 6 to be hovering around 16 per cent for the December Footsie series. Footsie options turnover represented over 19,000 of the total option volume of nearly 39,000 lots. December futures hit 3,128.5 by the official close and 3,133 io after hours dealing suggesting that the market might begin

forecasts a loss of £200m on historic cost basis Calor Group, always boosted by cold snaps in UK weather,

jumped 11 to 293p. PowerGen's purchase of a 3.9 per cent in the Liverpool Bay oil and gas development from Monument Oil & Gas continued to drive Monument shares a sleade harder 56p, but als produced another good show ing by Lasmo, also heavi involved in Liverpool Bay which hardened to 134p. Ente prise made good progress, clo ing 9 firmer at 9 to 462p.

Recent encouraging drilling news helped Pict Petroleum add a further 4 to 158p. MARKET REPORTERS:

Christopher Price. Peter John. Steve Thompson.

■ Other statistics, Page 23

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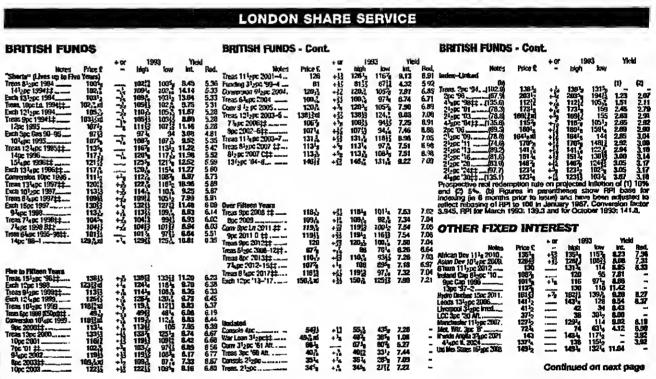
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CROSSWORD

No.8,309 Set by ALAUN

ACROSS 1 When you come round again, have no amnesia (6)
4 Being generous, said to get (5)
2 Being generous, said to get (5)
3 Call (6) a cab (6)

8 Make rings around first sllp

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walk (7) walk (7)

11 Providing complete coverage, generally speaking (2,3,5)

12 It's no good seizing back the island (4)

11 Providing complete coverage (7)

12 RemInded oneself of what a degree means (4,5)

13 Policeman who's been framed (9)

13 A bird and it's after seed (5)
14 Are they what the Queen is talking about? (8)
15 The engagement has got the proposition of flush (9)
16 The engagement has got the proposition of flush (9)

16 Loves being in a grade A, terribly expensive neighbourhood (4.4)

18 Carries as far as and is pre19 Doctored at the Free Hospipared to take back (5)

20 Fail to see she's not wearing a wedding ring (4)

21 No view of the front from

22 But first reinforce the lock

23 Doesn't keep the proceeds (7)
24 "Quiet!" you say (when It bangs on the window?) (7)
25 The unfinished dining-room

26 Pictures of avalanches? (6)

of 14 (6)

JOTTER PAD

the hotel suite (10) (5)

union? (5)

(4.5) 5 What led you to form a opposite of flush (9)
15 The engagement has got
Albert hot and bothered (9)

Solution 8.308



FINANCIAL TIMES THURSDAY NOVEMBER 18 1993 LONDON SHARE SERVICE **AMERICANS** Caping 16,529
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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE

D-Mark remains weak

weaken against most European currencies, though it managed to recoup some of its losses in late trading yesterday, writes Conner Middelmann.

The German currency's slippage was triggered by Tuesday's 9 basis-point drop in the Bundeshank's rate for twoweek securities repurchase agreements which spurred talk that the Bundeshank has embarked on a more aggressive easing course.

"With the recession deepening, M3 headed back towards the target range and inflation set to fall below 3 per cent in the first half of next year, the economic fundamentals point to an acceleration of the easing course," said Mr Michael Burke, an economist with Citi-

bank in London. Still, most analysts said they did not expect to see a cut in Germany's leading discount and Lombard rates at today's meeting of the Bundesbank's

central bank council. The Belgian and French francs posted significant gains against the D-Mark, with the Belgian currency receiving an extra hoost from a sharp cut in key money market rates which was seen to inject new life into the flagging Belgian economy.

& IN NEW YORK

Nov 17	Latest	Previous Close
E Spot	1.4795 - 1.4805 0 34 - 0 33pm 0.82 - 0.81pm 2.41 - 2.34pm	1.4800 - 1.4810 0.35 - 0.34pr 0.83 - 0.82pr 2.53 - 2.48pr
Forward premio	ms and discounts	apply in the

		Nov 7	Previous
0.30	am	81.0	81.3
9.00	am	81.1	812
10 00	ACD	81.0	81.2
11.00	201	C1.1	81.2
Nacn		81.0	01.2
1.00	pro	81.0	81.2
2.00	pm	81.0	61.2
300	pm	810	01.2
4.00	971	80.9	81.2

CURRENCY RATES

Mar 17	Bank & rate	Special ** Drawing Hights	European † Currency Unit
Sterling	300 440 525 550 875 575 5.25 6.5 1.75	0.937372 1 39435 1.83915 16.6249 50.2454 9 41117 2.36342 2.65117 9.20784 2323.21 148.777 10.2631 191.166	0.751074 1.12449 1.47514 13.5365 40.7727 7.62571 1.92480 2.15824 6.66528 1878.21 120.714 8.3695 155.101
Swedish Krone Switz Franc Greek Drach Izsh Port	11.50 4.35 21	11 4339 208245 N/A N/A	9.28264 1 69516 274 983 0 505391

CURRENCY MOVEMENTS

Nov 17	England Index	Guaranty Changes %
Sterling US Dotlar US Dotl	80.9 66.5 91.9 114.4 112.0 114.4 124.0 114.0 119.2 105.8 77.0 183.2 86.8	-28.30 -11.00 -10.16 +16.54 -1.40 +8.73 +32.08 +22.87 +21.55 -8.54 -36.95 +125.34 -33.57
Morgan Guara	nhe chance	art maring

1980-1982-100. Bank of English OTHER CURRENCIES

Nov 17	£	S
Argentina	1.4775 - 1,4780	0.9985 - 0.9985
Australia	2.2345 - 2.2365	1.5110 - 1.5120
DEF	304,580 - 304,600	205.938 - 205.94
Inland	8.6000 - 0.6295	5.8150 · 5.8350
	381.330 - 361.911	
long Kong	11.4285 - 11.4300	7.7275 - 7.7285
an	2509 85 - 2512.65	1697.00 - 1698.0
orea(Sth)	1184.75 - 1194.90	807.800 - 807.90
Idawii	0.44265 • 0.44340	0.29930 - 0.2998
preoderawa	53.35 - 53.45	36.10 - 36.20
lalaysia	3.7730 - 3.7745	2.5510 · 2.5520
Menden	4.6440 - 4 8735	3.1400 · 3.1600
Zealand		1.0165 - 1.8198
309 Ar	5 5485 · 5,5505	3.7515 - 3.7525
ingipare	23575 - 23590	1.5940 - 1.5950
(Cm)	4.9640 - 4.9885	3.3700 - 3.3730
Al (Fri)	6.3930 - 6.4075	4.3225 4.3325
ahwan	39.70 - 39.85	26.85 - 26.95
AE	5 4315 - 5.4325	3.6725 - 3.6735

around its previous European exchange rate mechanism floor of BFr21.0960 against the mark. It hit an intra-day high of BFr21.090 but closed slightly

lower at BFr21.25. The French franc also firmed markedly, hitting its highest level against the D-Mark since the summer ERM crisis. It hit a high of FFr3.4560 to the D-Mark, compared to its floor of FFr3.4305 before the ERM trading bands were widened on August 2. In late London trading it was quoted at FFr3.4615.

Despite the franc's strength against the D-Mark, "we did not see any intervention by the Bank of France on the cross." a Paris-based analyst reported. The Bank of France could have profited from the franc's strength to replenish its forelgn currency reserves, which were depleted during the last ERM criois and are clowty

being rebuilt. However, "they may have

done something via the US dollar," he suggested. This could involve selling francs for dollars and then selling those dollars for D-Marks · a less visible way for a central-bank to operate in the foreign exchange

market. Sterling largely shrugged off rate-cut speculation following lower-than-expected retail price and sales data and eased only I pfennig against the D-Mark to DM2.5175. Against the US dollar it closed at \$1.4770, compared with \$1.4855 at Tuesday's close.

The dollar rose early in London on hopes that the North American Free Trade Agreement would be approved by US Congress and received an additional boost from strong housing starts data. However, it slipped on late profit-taking to close only slightly higher at DM1.7050, compared with DM1.7020 on Tuesday. Against the Yen it ended at Y107, up from Y106.55 on Tuesday.

	Eco Gentral Rates	Currency Amounts Against Ecu Nov 17	% Change from Central Rate	% Spread vs Weakest Currency	Olivergence Indicator‡
Dulich Guilder D-Mark Irich Punt Spanish Peseta Belgian Franc Portuguese Escudo Renon Franc Dunish Kone	2.19672 1.94964 0.806628 154,250 40.2123 192,854 6,53983 7,43679	2.15924 1.92490 0.805391 155 101 40 7 121 195.762 6.68528 7.62571	-1 71 -1.27 -0.40 0.55 1.34 1.51 1.70 2.54	4.32 3.86 2.95 1.98 1.02 0.75 0.00	-4 -9 -10 -15

w 17	Day's spread	Classe	One month	Pa.	Three mooths	p.e.
	1,4735 - 1,4820) AT65 - 1.4775	0.34-0.33срл	268	0.84-0.81pm	2.23
i	1.9350 - 1.9510	1.9430 - 1.9430	0.30-0.23cpm	1,64	0.74-0 60pm .	1.38
riands.	28225 - 28410	28225 - 28025	par 1300/3	-0.27	4-702	-0.35
m	53.20 - 52.75	53.35 53.45	14-18063	-360	31-41dts	-2.70
ark	9 3825 - 10,0448	9.9825 - 9.9925	1 4 25 greds	-263	54-6503	-2.38
	1 0645 - 1 0610	1.0545 - 1.0555	0 03-0 05cds	-0.45	0.11-0.17dbs	-0.53
ny		25150 - 25200	lg=lapidis	-0.83	4-1508	-0.85
ď		256.00 - 257.00	69-193cd5	-6.74	239-405ds	-5.49
	202,40 - 204 40	202.40 - 202.70	62 69c/s	-3.88	184-19803	-3.77
	2460.45 - 2472.85	2464.50 - 2465.50	6-Bireds	-341	20-2208	-3.41
	10.9225 10.9625	10.9225 10.9325	1 ¹ 8- ¹ 4CD/II	0.75	214-14PM	0.43
	0.7200 - 0.7635	8.7200 - 0.7300	4- looks	-1.20	2-23-ds	-1.00
	12 1545 - 12 2615	12,1550 12,1658	153-21-greds	-1.57	41= 572ds	-1.64
	157.50 - 158.65	157.50 - 158.50	ia-Jaypin	332	Ja-1 4003	3.32
	17 67 - 17.80	17.70 - 17.73	3. 1 agrods	-059	14-3 kds	-0.64
			14-14COM	702	1-3-4m2	
dand .	2.2050 - 2.2300	22050 - 22150			\$g. 120m	1.02
	1 3115 - 1.3165	1 3105 - 1,3115	0.10-0.15cd/9	-1.14	0.34-0.41ds	-1.14

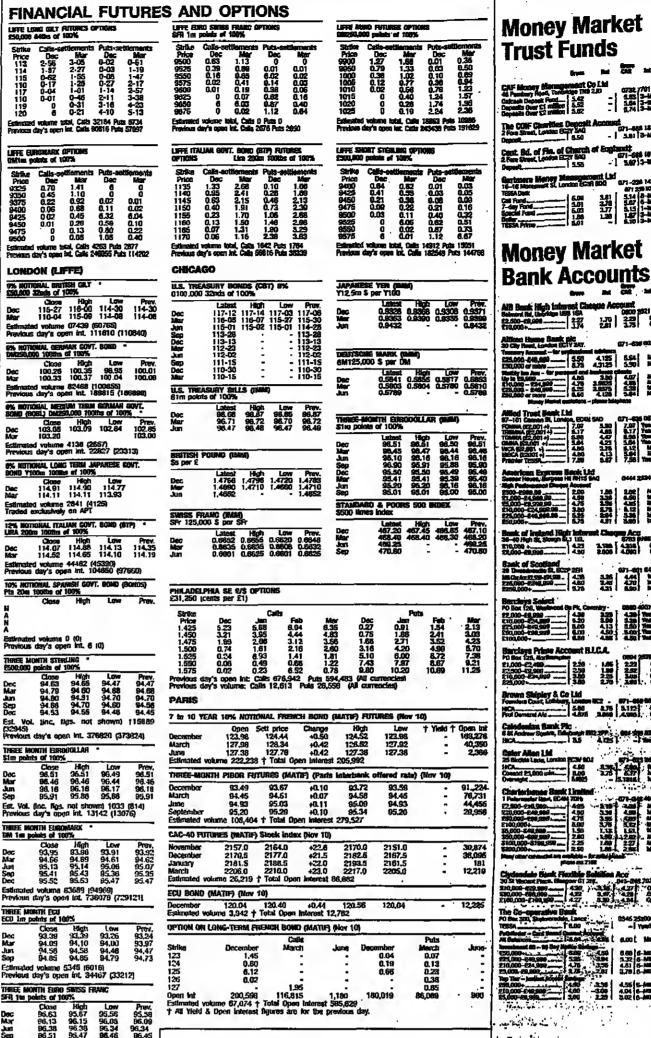
v 17	Day's	Close	One month	54	Timee	*
	spread		, ,	ρa	months	p.a.
	1.4735 - 1.4820	1,4765 - 1,4775	0.34-0.3Ccprf	2.68	0 84-0.81pm	2.23
t	1.3835 - 1.4005	1,3970 - 1,3980	0.39-0.37com	3.26	1 0/3-0.593pm	2.89
-	1,3080 - 1,3185	1,3150 - 1,3160	0.10-0.12cds	-1.00	0.25-0.3 dis	-0 H5
lands .	1,9130 - 1,9235	1.9135 - 1.9145	0.45-0.49cdis	-2.98	1 19-1,24ds	-254
n	36.09 - 36.40	36.10 - 36.20	14,00-17 00cds	-5,15	28.00-45.00@9	~1.59
rk	8.7570 · 8.7850	6,7600 - 6,7850	2.80-3.10credis	-5 23	7.80-6.20ds	4.73
W	1 7030 - 1,7150	1 7045 - 1 7059	0 46-0 4701005	-3.27	1.21-1.2306	-2.86
to	173 30 - 174 20	173.65 - 173.75	30-134036	-9.12	362-375db	-8.49
	137 40 - 138.15	137,55 - 137 65	71.79005	-667	206-216ds	-6.13
	1664.00 - 1671 75	1668.75 1669.25	8 001-8.80@redia	-6.04	23 50 34 50dis	-5.75
V	7.3765 - 7 4225	7,3950 - 7 4000	1 30-1 50 oredis	-227	3,60-4 00:05	~205
	5.8990 • 5.9270	5.9050 5.9100	1 77-1,85cd/s	-368	4 73-4 8800	-125
۹	8.2170 - 8.3795	8,2300 - 8,2350	3 00-3.30oredis	-4,59	7,75-8.15dlg	-1.86
	106.86 107.50	108.95 - 107,05	0 06-0.05ypat	0.62	0.30-0.2900	1,30
	11,9950 - 12,0500	12,0025 - 12,0075	3.10-1.40gredis	35	8.00-8.90dis	-2.82
bust.	1,4950 - 1,5096	1,4965 - 1,4975	0 18-0 20066	-1,52	0.42-0.47ds	-1.19
	1.1220 - 1 1280	1,1255 - 1,1265	0 38-0.36cpm	3.94	1 00-0.96pm	328

	UKO-C	URREN	SA MAIF	KEST I	KAIES	
Nov 17	Snort term	7 Cays notice	One Month	Threa Months	Six Months	One Year
ing profession of the control of the	5-23-35-3 5-23-35-3 5-4-4-3-3 5-4-6-8 8-7-7-7-4 6-7-7-7-7-7-8 6-7-7-7-7-7-7-7-8 6-7-7-7-7-7-7-7-7-7-7-7-7-7-7-7-7-7-7-7	3-8645668500 3-46458385	500 4 5 4 5 6 5 5 5 5 5 6 6 5 6 6 6 6 6 6 6	57-51-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-	574545456577744 5745454565777456 5745454565777464	5.34 - 5.55 - 5.

 EXCHANGE	CROSS	RATES

2	_ \$	OM)	Yen	F Fr.	5 A.	N PA.	fits	CS	B Fr.	Pto.	Ecu
. 3	1.477	2513	158.0	8.725	2210	2,838	2465	1.943	53,40	202.5	1 311
	1	1,701	107.0	5 907	1,496	1.915	1669	1 316	36 15	137.1	D 888
	0.588	1	62.87	3 472	0.879	1.125	980.9	0.773	21.25	80.58	0.522
	8.348	15.91	1000.	55.22	13.99		15601				0.297
1.146	1.693	2,880	181 I	10.							1.500
0.452	0 668	1 137	71.49								0 583
0.354	0 522	0 889	55 87	3.085							0.464
0.406	0.599	1.019	64.10	3.540							0.532
0.515								0.700			0.675
								2 6 30			2 455
0.494											0.647
0.763	1.127	1.917	120.5	6.655	1 686	2157	1880	1 482	4073	154.5	u.o.,
	3 0.677 0.398 5 329 1.146 0.452 0.354 0.406 0.515 1.873 0.494	1 1.477 0.677 1 0.398 0.588 6 329 8.348 1.146 1.693 0.452 0.688 0.354 0.522 0.406 0.599 0.515 0.760 0.494 0.729	1 1.477 2.513 0.577 1 1.701 0.338 0.588 1 6 329 8.348 15.91 1.140 1.693 2.890 0.452 0.663 1 137 0.354 0.522 0.889 0.405 0.523 1.019 0.515 0.780 1.293 1.673 2.786 4.785 0.494 0.729 1.241	1 1.477 2.513 158.0 0.577 1 1.701 107.0 0.338 0.588 1 62.87 6.225 8.348 1591 1000. 1.446 1.593 2.890 1811 0.452 0.668 1137 71,49 0.344 0.522 0.893 53.7 0.406 0.599 1019 64.10 0.515 0.780 1293 01.32 1.877 2.786 4.796 225.9 0.494 0.739 1.241 78 02	1 1.477 2.513 158.0 8.725 0.577 1 1.701 107.0 5907 0.338 0.588 1 62.67 3.472 6.225 8.348 1.591 1000. 55.22 1.146 1.593 2.890 181 1 10. 0.452 0.663 1137 71.49 2.946 0.354 0.522 0.899 55.7 3.085 0.406 0.599 10.19 84.10 3.540 0.515 0.780 1.293 81.32 4.590 1.877 2.786 4.796 285.9 16.34 0.494 0.729 1.241 790 4.309	1 1.477 2.513 152.0 4.725 2.210 0.577 1 1.701 107.0 5 907 1.496 0.338 1 62.47 3 472 0.879 6 225 8.348 15.91 1000. 55.22 13.99 1.140 1.931 2.890 1811 10. 2.533 0.452 0.668 1137 71.49 3.948 10.533 0.452 0.668 1137 71.49 3.948 10.835 0.456 0.599 0.199 84.10 3.540 0.897 0.456 0.599 0.199 84.10 3.540 0.897 1.1677 2.786 4.796 225.9 16.34 4.138 1.1677 2.786 4.796 225.9 16.34 4.138 0.494 0.799 1.241 78 02 4.303 1.091	1 1.477 2.513 158.0 8.725 2.210 2.828 0.577 1 1.701 107.0 9.007 1.406 1.915 0.338 0.588 1 62.87 3.472 6.879 1.125 6.229 8.348 16.91 1000. 55.22 13.99 17.90 1.146 1.891 2.890 181 1 10. 2.533 3.241 0.452 0.868 1137 71.49 3.948 1 1.280 0.452 0.868 1137 71.49 3.948 1 1.280 0.452 0.869 5.73 3.065 0.781 1 0.406 0.599 1.019 6.410 3.540 0.897 1.147 0.515 0.700 1.238 81.22 4.490 1.137 1.445 1.877 2.706 4.706 2.85.9 16.34 4.138 5.236 0.494 0.729 1.241 7802 4.309 1.091 1.397	1 1.477 2.513 158.0 8.725 2.210 2.828 2.465 0.577 1 1.701 107.0 5907 1.496 1.915 1090 1.398 0.58 1 62.67 3.472 0.879 1.125 1090 1.502 6.225 8.348 1.62.67 3.472 0.879 1.125 1090 1.502 1.399 1.799 1.500 1.446 1.891 2.890 1811 10. 2.533 3.241 2.255 0.452 0.868 1.137 71.49 3.948 1 1.290 1115 0.452 0.868 1.137 71.49 3.948 1 1.290 1115 0.452 0.899 5.87 3.085 0.781 1 6716 0.406 0.599 1.019 64.10 3.540 0.897 1.147 1000. 0.515 0.760 1.233 81.32 4.490 1.137 1.455 1.559 1.871 2.706 4.766 2.95.9 16.34 4.139 5.296 4.916 1.917 2.706 4.766 2.95.9 16.34 4.139 5.296 4.916 0.949 0.729 1.241 7.002 4.309 1.091 1.397 1.217	1 1.477 2.513 158.0 8.725 2.210 2.828 2.465 1.943 0.577 1 1.701 107.0 5907 1.496 1.915 1669 1.316 1639 1.326 1.328 0.588 1 62.87 3.472 0.879 1.125 980.9 0.772 6.225 8.348 1.511 1000. 55.22 13.99 17.90 15601 12.30 1.446 1.893 2.890 1811 1 10. 2533 3.241 2.225 2.040 0.452 0.668 1.137 71.49 3.948 1 1.289 1115 0.379 0.452 0.668 1.137 71.49 3.948 1 1.289 1115 0.379 0.452 0.668 0.593 1.327 71.49 3.948 1 1.289 1115 0.379 0.452 0.693 0.781 1 8716 0.887 0.406 0.593 0.781 1.371 1.455 1.599 1.381 0.515 0.780 1.381 1.382 4.499 1.137 1.455 1.599 1.147 1000. 0.781 1.377 1.256 1.256 4.766 2.959 16.34 4.139 5.228 6.461 5.354 0.494 0.729 1.241 7.002 4.309 1.091 1.397 1.217 0.990	1 1.477 2.513 158.0 8.725 2.210 2.828 2.465 1.943 53.40 0.577 1 1.701 107.0 5907 1.496 1.915 1669 1.316 36.15 0.338 0.588 1 62.57 3.472 0.879 1.125 980.9 0.771 2.125 2.25 8.348 1.511 100.0 55.22 13.99 17.90 1.9601 12.30 338.0 1.446 1.893 2.890 1811 10.0 2.533 3.741 2825 2.277 61.20 0.452 0.868 1.137 71.49 2.948 1 1.280 1115 0.379 24.16 0.452 0.868 1.137 71.49 2.948 1 1.280 1115 0.879 24.16 0.595 0.781 1 8716 0.887 18.88 0.406 0.599 10.19 0.401 0.354 0.522 0.889 587 3.085 0.781 1 8716 0.887 18.88 0.406 0.599 10.19 0.405 0.891 1.137 1.455 1.299 1 2743 1.137 1.255 0.555 0.785 0.785 0.555 0.785 0.785 0.555 0.785 0.555 0.785 0.	1 1.477 2.513 158.0 8.725 2.210 2.838 2.455 1.943 53.40 20.2.5 0.677 1 1.701 107.0 5.907 1.486 1.915 1669 1.316 36.15 137.1 0.338 0.588 1 62.47 3.472 0.879 1.125 980.9 0.771 21.25 80.58 6.329 8.348 15.91 1000. 55.22 13.99 17.90 15601 12.30 338.0 1282 1.146 1.691 2.800 181 1 10. 2.533 3.741 2875 5.327 6120 232.1 0.452 0.868 1 137 71.49 3.948 1 1.289 1115 0.579 24.16 91.30 0.452 0.869 1317 71.49 3.948 1 1.289 1115 0.579 24.16 91.30 0.344 0.522 0.869 55.97 3.085 0.761 1 871.6 0.867 18.88 71.81 0.466 0.599 1.019 84.10 3.540 0.897 1.147 1000. 0.788 21.58 32.15 0.515 0.760 1.238 81.32 4.490 1.137 1.455 1.599 1 27.43 104.2 1.877 2.706 4.706 285.9 16.34 4.139 5.296 4616 3.534 0.00 379.2 0.494 0.729 1.241 78.02 4.308 1.091 1.397 1217 0.990 25.37 100.

Estimated volume 6921 (4875) Previous day's open lot 55088 (54559) THREE MONTH EUROLINA DIT. RATE 91.19 61.90 92.30 92.55 Estimated volume 10616 (7658) Provious day's open Int. 114687 (113734) Long term Eurodollars; two years 4%-4% per cord, then years 4%-4% per cod; four years 5%-4% per cod; then years 5%-5% per cod normal. Short term roles are call for US Dollar and Japanese Yers, others, two days' notice. Close High Low Prey, 3128.5 3142.0 3106.0 3106.0 3146.5 3155.0 3123.5 3124.5 3157.0 3157.0 3157.0 3135.0 Estimated volume 16001 (13458) Previous day's open Int. 67335 (65890) Contracts traded on APT. Closing prices shown. POUND - DOLLAR FT FOREIGN EXCHANGE RATES 1-min, 3-min, 6-min, 12-min, 14737 1.4688 1.4629 1.4530



BASE LENDING RATES

%	76
Adam & Company 6	Duncan Lawrie 6
Alled Trust Bank 6	Goter Bank Limited7
AlB Bank 6	Financial & Gen Bank 7
OHenry Anstracher 6	●Robert Fleming & Co6
Bank of Baroda 6	Girobank
Banco Bilbao Vizcaya 6	●Guinness Mehon 6
Bank of Cyprus 6	Habib Bank AG Zurich _6
Bank of Ireland 6	OHambros Bank
Bank of India 6	Heritable & Gen Inv Blc. 6
Bank of Scotland6	Grad Semuel6
Bardays Bank 6	C. Hoare & Co
Brit Bk at Mid East 6	Hongkong 6 Shanghel. 6
GBrown Shipley 0	Julian Hodge Bank 6
CL Bank Nederland6	CLeopold Joseph & Sons 6
Chibank NA6	
City Merchants Bank 0	Ucryds Bank 6
Clydesdale Bark	Meghraj Bank Ltd 6
The Co-operative Bank6	Midland Bank

(11.00 a.m. Nov 17) 3 months US dollars

Roduighe Bank tid ... 6 * (In administration) (In administration) Royal Bk of Scotland 0 Camita 6 Witmen Secs . 6 Standard Chartered TSB 6 CUnited Elk of Kuwait 6 Unity Trust Bank Pic ... 6 Western Trust 6 Whiteaway Leidlew 6 Wintbledon 6 Sth Wast.7

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MONEY MARKETS

Belgium cuts rates

After Tuesday'o cuts in German and Dutch money market rates, Belgium cut its key interest rates sharply yesterday, taking advantage of the strength of its currency, writes Conner Middelmann.

It cut its central rate to 8.30 per cent from 9.40 per cent and its discount rate to 5.50 per cent from 6.00 per cent. This followed a government agreement on a programme of austerity measures designed to stem the growing deficit in the social security hudget, address unemployment and hoost companieo' competitiveness.

UK clearing bank base lending rate 6 per cent from January 26, 1993

The recent rash of European rate cuts spurred talk that France will be the next to ease, with some dealers calling for a reduction in the 6.45 per cent intervention rate at today's round of securities repurchase agreements. The December PIBOR futures contract

jumped 0.10 point to 93.67. However, many expect France to continue taking its time over rate reductions, "The Bank of France will let the overnight rate slide along with the German repo rate, and will first try to reduce the gap between the intervention rate and the overnight rate," said Dominique Barbet.

economist with Paribas Capital Markets in Paris. The overnight rate traded around 61 per cent yesterday and he said it could slip to 6% per cent Thursday. "The French economy needs

lower rates, hut as long as the

authorities want the franc to stay firm, they will have to maintain a certain spread in French chort-term rates over Germany'o," he added. The French intervention rate is 70 basis points above Germany's discount rate. The Bundechank's central bank council meets today, hut

according to a Reuters poll, 18 out of 20 European economists surveyed did not expect the German central bank to cut rates today.

In the UK money market, the short sterling contract jumped on lower-than-expected retail sales and inflation data which fuelled speculation of significant base rate cuts in, or around the time of, the November 30 Budget. "Many people are now

looking for a total one-point base rate cut before the end of the year," said a senior money dealer. The short sterling future rose 0.16 point to 94.63. After announcing an initial shortage of £1hn, the Bank purchased a total of £293m in its market operations and provided late assistance of

MONEY RATES NEW YORK One Month Nov 17 6.20-6.35 634-67 434-5 6.06-6.12 213-213 613-914 6.20-6.35 6.25-6.35 4¹2-45₈ 5.83-5.96 6.10-6.25 6.43-6.58 4.3-4.3 5.78-5.76 5.76-6.90 6.75 6.45 613-9 712-71 62-62 64-64

FT LONDON INTERBANK FIXING

The fixing rates are the artifernetic means rounded to the nearest one-abdecable, of the bid and efferred rates for \$10m quoted to the market by the reference banks at \$11,00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banqua National de Paris and Morgan Guaranty Trust.

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TOKYO - Most Active Stocks Wednesday, November 17, 1993

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Profit-taking erodes gains in US stocks

Wall Street

INVESTORS took some profits yesterday, after Tuesday's record-hreaking gains, to leave US share prices slightly lower across the board at the halfway stage, writes Patrick Harverson

At 1 pm, the Dow Jones Industrial Average was down 5.59 at 3,705.18. The more hased dard & Poor's 500 was down 1.50 at 465.24, while the Amex composite was 1.58 lower at 473.15, and the Nasdaq composite down 4.36 at 767.33. Trading volume on the NYSE was 180m shares hy 1 pm.

The markets opened weaker, MEXICAN equities fell back slightly in early trading after their recent record gains, with some profits being taken in Telmex. The IPC Index was down 16.03 at 2,143.32 in turnover of 363m pesos.

Investors were also cautious as they awaited last night's Nafta vote in the US.

double-digit losses in the first hour of trading as investors took the opportunity to book some of the profits earned on the previous day, when the Dow broke through 3,700 for the first time in its history.

The main attention of dealers and investors remained the Nafta vote in Congress, which was scheduled for late last

Since the weekend hopes have been rising that the House of Representatives will vote to approve the trade pact, hut there was enough uncertainty surrounding the final outcome to persuade many participants in the markets to stay on the sidelines until after the result was known.

Bond prices were higher in early trading, which provided some support for stocks, but the Treasury gave back most in early afternoon trading the viald on the benchmark 30-year bond was little changed at 6.15

Among individual stocks, Philip Morris feli \$1% to \$55% and RJR Nabisco dropped \$1/4 to \$6% in heavy trading after the broking house Merrill Lynch cut its ratings on the two stocks from "neutral" to "helow average". American Brands, the other main cigarette producer, fell \$% to \$34% in sympathy.

An upgrade from Merrill Lynch, however, lifted IBM, which added \$% to \$53% as the hroking house's computer industry analyst rated the stock a long-term "buy".

Hong Kong Telecom ADRs fel \$4% to \$57% as investors reacted to the news that Morto clients that they reduce their weighting in Hong Kong stocks in the wake of the hig gains the colony's market has recorded over the past few

Auto stocks were firmer in the wake of recent strong car and truck sales data. General Motors rose \$% to \$53%, Ford firmed \$1/4 to \$621/4 and Chrysler put on \$% at \$56%.

Canada

TORONTO was lower at noon with investors apprehensive ahead of last night's Nafta vote in the US. The TSE-300 composite index fell 27.65 to 4,229.58 in volume of 32.18m

Of Toronto's 14 suh indices only transport and mining managed to post gains. Among gold stocks, Lac Minerals dropped C\$% to C\$10.

SOUTH AFRICA

INDUSTRIALS extended Tuesday's gains, rising 105 to 4,797 as golds feli 52 to 1,897, sliding sharply near the close as the precious metal dipped to \$370/71 an ounce. The overall

Austerity package helps Brussels to record high

FT-SE Actuaries Share Indices

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attention yesterday in the absence of Frankfurt, which was closed for a holiday, writes Our Markets Staff.

BRUSSELS finished at a record high following a cut in two leading interest rates and the announcement hy the goverument of its new austerity measures. The Bel-20 index added 21.84 to 1,397.76, hut was off an intraday high of 1,406.42. Turnover was some BFr4bn.

The government's plans included measures to control social spending, slow increases in wages and control unemployment. Among the day's performers. Petrofina rose BFr130 or 1.3 per cent to BFr9,880 and Solvay BFr150 or per cent to BFr14,525.

AMSTERDAM fell back towards the close, with the CBS Tendency index closing down 0.6 at 137.0, after a day's high of 138.8.

KLM was again among the most actives, slipping Fl 1.70 to FI 38.60 on continued uncer-

and reports of further rumours conceroing the choice of a US partner hy the four European airlines involved.

Nedlloyd, the shipping group, hit a new year's high during the session on unconfirmed reports that Far East ern container tariffs were to be increased. The shares finally settled np Fl 1.40 at Fl 51.30. Polygram also hit a new

intraday high for the year. F177.10, as more huyers came into the market, partly as a result of the developing interest multimedia. The shares finally closed up Fl 1.20 at Ft 76.30. Elsewhere, Nutricla, the food

group, saw its price tumble ?

per cent after it said that it was recalling one of its products. The shares closed down FI 11.00 at FI 136.80. PARIS was lifted by hopes of an interest rate cut, and hy a stronger hond market. The CAC-40 index put on 32.14 or

1.5 per cent to 2,147.99.

Open 10.30 11.00 12.00 13.00 14.00 15.00 Close **Hourty changes** FT-SE Eurotrack 1007 1382.16 1362.42 1363.85 1364.95 1385.29 1365.22 1364.68 1363.56 FT-SE Eurotrack 2001 1422.53 1421.27 1424.61 1424.28 1424.78 1424.02 1423.09 1423.11 Nov 18 Hov 15

FT-SE Eurotrack 200

More turnover figures were released to whet the appetites of investors, while Lyonnaise des Eaux-Dumez added FFr12 to FFr538, helped by news that it had won a FFT400m US con-

Three new additions made their entry to the index yester-day, BNP, CLF and Promodes, showing respective losses of FFr4.80 to FFr294.20, FFr6 to FFr479 and FFr31 to FFr1.169. These companies replace Cap Gemini, Chargeurs and Cluh Med, and thereby increase the market's total capitalisation hy

Nov 12 Nov 11 Nov 10 1335.92 1347.91 1339.42 1413.86 Baca valua 1000 (25/10/90) Hightiey: 100 - 1265.25; 200 - 1425.77 Lewber: 100 - 1361.71 200 - 1425.63 Femilia MADRID was lifted by Wall Street and interest rate hopes hut its sheer huoyancy hrought profit-taking and the general

index closed off its best at

306.93, up 4.00, or 1.3 per cent. Turnover rose from Pta29.4hn to Pta43.2hn. The best gains came in electrical utilities, where Endesa gained Pta170 to Pta6,530 and Iberdrola, the most active stock of the day, rose Ptal8 to Pta879. banks, Argentaria closed Pta150 lower at Pta6,260 after setting the price for its second offer overnight at Pta6.050 per share.

higher on the first day of the new account, and the Comit index adding 3.23 at 537.36. Banks were firm, helped by a short selling ban on stock in

Credito Italiano ahead of the announcement of the privatisation price on December 4. Credito added L103 to L2,460, for a cumulative two-day rise of 9.2 per cent, while BCI was L227 ead at L4,378. Telecoms picked up after

Tuesday's pressure. Sip added L111 to L3,121 and Stet was L73 higher at L3,644. Sme, the retailer rose L116 to L3.755. after a day's high of 13,990, on speculation about an offer for divisions which have not yet

Mediobanca, trading ex-divi-

dend and launching its rights issue, rose L153 to L11,519. Ifil, also launching its capital increase, rose L21 to L4,555. ZURICH was steady in moderate volume, awaiting the outcome of last night'a Nafta vote.

scheme at its annual meeting

AUSTRALIA bid strongly for

banks as the All Ordinaries

index moved forward 20.5 to

The market reassessed Tues-

day's profits from ANZ and,

although net earnings of

A\$246.5m were at the lower

end of expectations, the shares

eventually closed 29 cents, or

SINGAPORE ended off the

day's highs, but with the Straits Times Industrial index

still 18.50 better at 2,096.51.

tors pile in following institu-

tional buying and the compos-

SEOUL saw individual inves-

6.5 per cent, up at a year a high of A\$4.73.

2.104.3

UBS bearers, np SFr11 at SFri.296, were helped by the bank's optimistic statement on the outlook for this year and 1994. A SFT17 rise to SFT1.400 m Zurich insurance registered shares was attributed to a new option issue and expiry of an

old one. Foreign demand for cyclical took BBC Brown Boveri up. SFr11 to a year's high of SFr1,029. Alusuisse registered shares rose SF19 at SFt523 STOCKHOLM's advance was helped by a rally in Electrolux

the B shares gaining SKris at SKr305 on a 30 per cent rise in nine month profits. The Affirs. variden general index rose 11.2 to 1,399.7. OSLO rose in the wake of gains in domestic bonds, and a rise in the dollar which was good for exporters and oil stocks. The all share index rose 8.53 to 608.55

Written and edited by Willia. The SMI index eased 1.2 to

ASIA PACIFIC

Hang Seng dives in London as New Zealand recovers

INVESTORS failed to respond to Tuesday's approval of the political reform hill hy a lower house parliamentary committee, and share prices moved lower in thin trading, writes Emiko Terazono in Tokyo.

The Nikkei average lost 134.41 at 18.108.71 on arbitrage linked selling after moving between 18,030.80 and 18,344.23. Volume was 216.5m shares, against 264m, Falls led rises by 624 to 320, with 195 issues unchanged, and the Topix index of all first section stocks shed 8.52 to 1,540.83. In London the ISE/Nikkei 50 index rose 1.18 to 1,245.01.

Traders said fears of a plunge in share prices had eased to some extent: the Topix index has not fallen far below the 1,530 level, currently regarded as a technical support point. Many investors are now focusing on whether Mr Morihiro Hosokawa, the prime minister, will announce any economic support measures dur-ing his meeting with President Bill Clinton on Friday.

However, Mr Alex Kinmont, a strategist at Morgan Stanley, warned that technical factors were still dampening seotiment, and said the Topix could fall hy another 10 per cent: 'Although underlying political fundamentals may Improve, shares still face pressure from arhitrage selling.

Analysts reckon that arhitrageurs still hold up to 10 per cent of outstanding shares of some stocks in arbitrage posi-tions, which will need to be sold in order to switch from the Nikkei 225 to the new 300. Among the hig hlue chips, East Japan Railway closed unchanged at Y458,000, while Nippon Telegraph and Telephone fell Y10,000 to Y781,000.

Profit-taking depressed bank shares, which rose on indexlinked buying on Tuesday industrial Bank of Japan fell Y10 to Y3,280, Dai-Ichi Kangyo Bank Y20 to Y2.260 and Sumi-

Large-capital issues were lower. Nippon Steel, the day'a most active stock, stipped Y7 to Y327 and NKK Y2 to Y250. Daikyo closed Y70 down at Y876 on further selling following an announcement earlier this week that it would post its

full year to March. Daishowa Paper dropped Y49 to Y991. The company's share price has been suffering since Mr Ryoel Saito, its ex-chairman, was arrested, allegedly for hribing politicians.

first pre-tax loss ever for the

Autohacs Seven, an anto-parts maker, was the day's best performer, rising Y300 to Y13,400 due to the popularity of its car navigation systems. In Osaka, the OSE average dipped 154.42 to 20,290.18 in volume of 15.2m shares. Nintendo the video game maker, weak eoed Y90 to Y7,170.

Roundup

WALL Street's overnight advances were lost on the Hong Kong market.

HONG KONG took profits in its own time, the Hang Seng index falling by 176.67, or 1.8 per cent, to 9,506.98. Turnover contracted from HK\$9.08hn to HK\$8.04hn and professionals said that selling pressure was not heavy.

However, London heard that Mr Barton Biggs, the Morgan Stanley strategist, had moderated his aupport for Hong Kong, and some said that the colony's weighting in the broker's global model portfolio had been cut hy a couple of. percentage points from its recent 7.2 per cent. The indicated Hang Seng fell a further 322, or 3.4 per cent, to 9,185, and there were fears of worse to come when the domestic

NEW ZEALAND recovered as the National party government gained one seat to give it 50 seats in New Zealand's 99-seat parliament. The NZSE-40 index finished 95.7, or 4.8 per cent, higher at 2,074.4.

market opens today.

Mr John Rattray at Ord Minnett said demand came from ...

810.17. The financials index ents. Turnover was high at NZ\$90m, but not excessive. however, declined 10.04 to 988.36 as investors avoided its Among market leaders, Telecom, which represents 23 per

highly priced constituents.

JAKARTA attained another cent of the index, closed 24 1993 high as the JKSE index cents stronger at N2\$4.17 in rose 9.99 to 538.18. Here, bankgood volume; and Brierley, which dropped plans for a coning stocks led the way, Bank Danamon putting on Rp500 at Rp5,400 and Bank Duta Rp5 troversial executive share on Tuesday, firmed 3 cents to

at Rp5,750.
TAIWAN came off intrades. sion highs on a round of late profit-taking. The weighted index lost a net 5.96 at 4.306.91 after reaching 4,345.66.

KUALA LUMPUR picked up

slightly in uncertain trading the composite Index rising by 6.51 to 957.81. Rothmans firmed M\$1.70 to

M\$18.80 on approval of a restructuring plan from the Government and Securities KARACHI fell back as inves

tors took profits after the market's recent record run. The KSE index was finally down 21.49 at 1,760.51, after a day's low of 1,746.27.

Mexico waits for news from Capitol Hill

By John Pitt

ttention has remained A firmly fixed through-ont the week on the political machinations which have been taking place on Capitol Hill. Washington.

However, while It was by no means clear earlier yesterday that President Bill Clinton and his administration had gathered enough votes to ensure that the North American Free Trade Agreement would win US congress approval, the Mexican equity market has behaved as though last night's vote was a formality.

On five successive days Mexico's IPC Index has reached record levels. But data supplied by the IFC tells a slightly different story: the country recorded a modest gain in dollar terms on the week, its improvement on the year to date standing at just above 16 per cent, similarly restrained in comparison to gains elsewhere in the region

the week's hest performance

	EMERGING	MARKETS:	IFC WEE	KLY INVES	TABLE PRIC	E INDICE	S
			Dollar terme			ocał currenc	terms
Market	No. of stocks	Nov 12 1993	% Change over week	% Change on Dec '92	Nov 12 1993	% Change over week	% Change
_ Latin Ame	don			···—			
Argentina	(11)	835.12	+7.7	+44.0	C40 440 70		
Rrazii					512,449.78	+7.7	+44.3
	(44)	231.51	+8.4	+85.2	63,014,156.83	+17.1	+2,921.6
Chile	(50)	470.37	+2.5	+12.4	773.21	+2.2	+20.6
Colombia ¹	(8)	517.93	-0.0	+21.8	744.00	-0.7	+21.7
Mexico	(58)	785.94	+26	+16,3	1,095.08	+6.5	+20.8
Peru	(7)	107.91	-2.7	+7.9	143.55	-2.1	+43.6
Vonezuela³ East Asia	(8)	569.86	+0.2	+9.7	1,311.99	+0.9	+40.5
China*	(16)	116.21	+5.1	+18.2	127.64	+5.0	+27.8
South Kore		106,14	+1.2	+8.1	112.37	+1.0	+10.4
Philippines	(11)	241.87	+0.9	+81.0	324.32	-3.1	+100.6
Taiwan, Ch		88.22	+0.4	+19.6	88.10	+0.9	+26.3
South Asia		***************************************		*10.0	00.10	100	¥E0.0
India'	(61)	95,44	+5.1	+1.8	105.54	+5.1	+10.5
Indonesia*	(31)	105.29	+1.8	+79.4	119.76	+1.5	+82.1
Malaysia	(61)	280.32	0.E+	+71.4	263.64	+2.5	+67.1
Pakistan*	(8)	302.85	49.9	+51.3	411.24	+9.9	+77.4
Sri Lanka ^w	(5)	164.25	+5.9	+64.2	175.99	+5.9	+78.0
Thailand	(52)	398.92	+7.8	+73.2	401.69	+7.9	+72.3
Euro/Mid E				.,	401100	*****	****
Greece	(17)	215.85	3.D-	+10.5	352.81	-1.3	+23.9
Jordan	(5)	164,92	+0.4	+41.2	238.17	+1.1	+43.8
Portugal	(18)	112,60	+2.2	+46.0	133.29	+1.2	+71.0
Turkeyn	(31)	178.28	+2.0	+168.6	1,110.90	+4.4	+314.2
Zimbabwe ⁴		178.76	-3.6	na	186.32	-3.0	n.a.

as investors responded to an while Thailand also moved on. heen added to the IFC data improved political climate. • China and Zimhabwe have from this week.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

	US Dollar Index	Dey's Change	Pound													
ustralia (69)		94	Sterling	Yen Index	DM Sndes	Local Cumency Index	Local % chg on day	Gross Div. Yield	US Dollar Vides	Pound Sterling Indies	Yen India	CM	Local Currency Index	1923 High	1993 Low	Pabbrod ado Jest
Luetria (17)	155.49	B.0+	155.19	104,73	137.59	157,15	+0.2	3.30	154.25	153.53	103.8-1	135.53	156.79	152.83	117,39	108.4
worth to fire beautiful and desired	173.81	-0.4	173,47	117.07	153,80	153,37	+0.3	1.03	174.44	173.64	117.44	153.27	152.90	184.47	131.18	
	151.58	-0.1	151.29	102.09	134,13	134,95	-0.1	4.27	151.74	151.04	102.15	133.32	135.09	156.76	131.19	135.
Canada (107) '	133.77	-0.2	133.51	90.09	118.36	127,52	-0.8	2.62	134.01	133.38	90.21	117.73	128.33	135.54	111.41	1113
	235.56	-1.0	235.10	158.66	208.44	216,66	-0.8	1.05	237.99	236.89	160.22	209.11	218.33			
	121.55	+1.7	121.31	81,87	107.55	148.81	+1.6	0.70	119.51	118.95	80.46	105.00		241.06	185.11	200.
rance (98)	163.54	-0.2	163.22	110.14	144.70	151.23	+0.2	3.07	163.82	163.06	110.28		146.53	128.99	65.50	65.
	132.48	+0.3	132.22	89.24	117.22	117.22	+1.0	1.81	132.11			143.92	150.97	173.05	142.72	144.
	394.00	-0.1	393.22	265.36	348.65	390.78				131.49	88.95	118.07	116.07	136.13	101.59	105.
					155.26		-0.1	2.80	394.34	392.51	265.47	346.49	391.12	304,34	218.82	247.
mb. /700	175.46	-1.3	175.12	118.12		176,41	-0.6	3.21	177.34	176.52	119.39	155.81	177.47	177.89	129.28	122
laly (70)	81.20	-1.7	61.08	41.21	54.15	76.05	-1,7	2.20	62 <i>.</i> 27	61.93	41.92	54.71	77.38	78.93	53.78	62
	146.95	+0.7	146.67	98.98	130.05	98.98	+0.7	0.83	146.00	145.32	98.28	128.29	98.28	185.91	100.75	98
Adlaysia (63)	467.78	-1.7	466,87	315.05	413.91	458,85	-1.7	1.52	475.79	473.58	320.29	418.03	455.72	437.72	251.6B	
/lexico (19) 19	900.17	+1.4	1896.44	1279.80	1681,39	6648.14	+0.9	0.74		1856.14	1262.15		6590.25			276
letherland (26)	189.88	-1.1	189.49	127.87	168.00	165,47	-0.5	3.20	191.99	191.10	129.25	168.69			1410.30	1477
lew Zealand (13)	59.22	-1-2	59.10	39.89	52,40	58.27	-1.4	3.90	59.93	59.65			166.27	197,07	150.39	150
	176.85	+0.4	176.50	119.11	156.49	177.03	+0.9	1,44			40.35	52.65	59.07	68.38	40.55	38
	309.95	-1.0	309.34	208.76	274.26	227.18			176.16	175.35	118.60	154.79	175.51	185.10	137.71	129
could deben forth							-1.2	1.41	313.01	311 56	210.72	275.01	229.85	332.55	207.04	197.
outh Africa (60)	223.52	+2.7	223.08	150.54	197.78	209.34	+0.6	2.57	217.69	216.68	146.55	191.27	208.17	223.52	144.72	140
	138.03	+0.7	137.78	92,97	122.13	143,52	+0.7	4,12	137.11	136,47	92.30	120.47	142.58	145.24	115.23	
	195.34	-1.5	194.96	131.57	172.85	238.14	-1.0	1.47	198.26	197.34	133,47	174.20	240.53			111.
	146.16	-0.8	145.87	98.45	129.35	135,78	-0.1	1.60	147.06	145.38	99.01	129.23		208.92	143.70	154
	186.43	-0.1	186.07	125.55	164.95	186.07	+0.1	3.85	186.68				135.94	148.13	105.31	103.
	190.1S	+0.7	189.79	126.08	169.27	190.16	+0.7	2.72		165.81	125.66	164.01	185.81	193,97	162.00	161.
			-		10-3-2-1	130.10	70.7	212	188.91	188 04	127.18	165.99	188.91	191.56	175.33	171.
	157 <i>.</i> 25	-0.3	156.95	105.91	139.16	151.82	+0.1	2.99	157.69	156.96	106.16	400.55				
lordic (114)	188.23	-0.8	185.87	125.43	164,79	196.88	-0.5	1.27	137.80			138.55	151.68	162,97	133.92	131.
acific Basin (714)	155.79	+0.5	155.49	104.93	137.86	109.26	+0.5	1.10		186.33	126.43	165.01	197.8-1	194.54	142.13	144.
	156.29	+0.2	155.28	105.26	138.29	126.16			154 98	154.26	104.34	136.17	108.63	166,80	105,89	103
lorth America (625)	186.64	+0.6	186.28	125.72			+0.4	1.89	155.99	155.27	105.01	137.05	125.72	162,86	117.26	115.
America Co. 110 (COS)					185.18	165.87	+0.6	2.71	185,49	184,62	124.88	183.00	184.75	187.68	171.51	
	138.49	-0.4	138.22	93.29	122.57	131.45	+0.1	2.44	139.00	138.35	93.59	122.15	131.36			167.
	241.12	-0.2	240.65	162.42	213.38	224.12	-0.4	2.64	241,65	240.53	162,71	212.35		143.73	112.51	113.
	157.40	+0.2	157.10	106,02	139.29	128,72	+0.3	1.90	157.04	156.31			225.03	245.12	152.70	155
	165.48	+0.5	165.15	111.46	146,44	143.97	+0.5	2.04	164.73		105.73	137.98	128.29	162.89	118.51	1153
	167.04	+0.4	166.72	112,52	147.82	147.23	+0.5			163.97	110.91	144,76	143.27	165.86	134,22	131
	179.92	+0.3	179.56	121,19	159.23	176.28		2.21	166.42	165.65	112.05	145,24	146.56	170.46	137.29	133
		-		.4.119	10323	17026	+0.4	2.78	179.40	178.57	120.78	157,65	175.65	181.67	157.47	
he World Index (2169)	167.33	+0.4	187.00	112.70	148.08	147.77	+0.5	2.21	166.67	155.90	112.21	145.45	147.03	170.68	137,32	153.

Barclays de Zoete Weild New Zealand placed, in separate transactions for different yendors. 108:9 million and 155million shares in Felecom Corporation of New Zcaland for NZ\$283 million and NZ\$592 million respectively.

Barclays de Zoete Wedd was global co-ordinator in the international offering of 3,898,608 shares and . public offering in France of 3,898,607 shares in Roussel Uclaf owned by Rhone Poulenc at a price of FF 563 per share

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and the same of the same of



The country's second revolution, launched 15 years ago by Mr Deng Xiaoping, has wrought a remarkable transformation, both in improved living standards and in relations with the outside world. But challenges abound. Not least of these lie in deepening

least of these lie in deepening the reforms that have brought China in little more than a decade from poverty and backwardness to being viewed as the world's next economic superpower.

Such claims may be premature in a country whose vast population remains predominantly peasant farmers. However, China's opening to the outside world has kindled extraordinary enthusiaem among foreign investors.

In the first three quarters of this year \$15bn was actually invested by foreigners, and \$35bn pledged in new contracts, according to official figures. Utilised foreign investment now stands at \$52bn since China's opened its doors to foreign business in 1979.

to foreign business in 1979.

For all these promising indications, China, burdened by an unwieldy and impoverished state sector, is still far from achieving its goal of creating a an orderly market economy as it moves to the next, more complex, stage of its reforms.

These will be aimed at better regulating the raw entrepeneurial energies that have been

regulating the raw entrepeneurial energies that have been unleashed and – perhaps more important – reasserting central control over increasingly unruly provinces where powerful local officials have been carving out their own small empires.

Mr Deng could hardly have

Mr Deng could hardly have anticipated the monumental changes that have overtaken China in the years since the third plenary session of the eleventh Central Committee in December 1978, when the reform drive was launched. But the words employed then have an historic resonance now. Casting off the buyden of Maoist dogma, the party

Crucial stage of the reform programme

demanded "great growth in the productive forces," and observed prophetically that the modernisation of China would prove to be a "profound and extensive revolution." The 89-year-old and enfeebled Mr Deng has remained

bled Mr Deng has remained true to those sentiments, arguing recently for a renewed commitment to growth even as his lieutenants were seeking to rein in a runaway economy growing at 13 per cent this year for the second year running.

whose exhortation last year to "do it faster" prompted an explosion of commercial endeavour, may go down in history as one of the great advocates of accelerated economic activity to deal with potential political problems. Chinese leaders need look no further than across the Russian border to be reminded of the costs of economic stagua-

The reformers have already travelled further down the road of economic change than even the greatest optimists might have predicted. However, the next steps, including an overhant of the banking

system, far-reaching reforms of the tax regime, further trade liberalisation, and creative approaches to dealing with debt-ridden state enterprises, will require persistence and

China's economic reforms have brought huge changes and

excited investors around the world, but as Tony Walker

reports from Beijing, the biggest tests are yet to come

among the most critical tasks is to arm institutions like the People's Bank, the country's central bank, with the authority to assert reasonable control over the economy, and thus help China avoid the wild fluctuations from "boom" to "bust" that have bedevilled the

China also has to find ways to ensure that adequate funds reach priority areas such as infrastructure. Serious bottlenecks in transport along with inadequate power supplies are a drag on economic activity.

In some ways this second stage of China's "second revolution" may prove more difficult politically than the first. Reform of state enterprises is already falling foul of powerful vested interests at the centre and in the provinces.

Mr Zhu Rongji, the reforming vice premier in charge of the economy, was obliged to ease credit restrictions in August and September after he had sought in mid-year to

impose stricter discipline or loss-making industries.

loss-making industries.

The episode raised doubts about the longer-term integrity of the anti-inflation fight, and also emphasised just bow difficult is the task of enterprise

Details of the new reform programme were endorsed at a meeting of the Central Committee beld in Beijing this month. This was the Third Plenum of the Fourteenth Central Committee of the Chinese Communist Party, and officials, with an eye to history, drew bold comparisons with the Third Plenum of 1978.

They boped that in the same way this latest event would act as a springboard for reform. It was also aimed at bolstering the reforming consensus among Party leaders lest any might be eotertaining ideas of backsliding once Mr Deng goes to "meet Karl Marx" - his euphemism for death.

Although this gathering of the Central Committee – the Party's supreme policy-making body between sessions of its National Congress – emphasised collective leadership, factional differences were

Continued on next page



| Collective | Col

Index (1978=100)
600

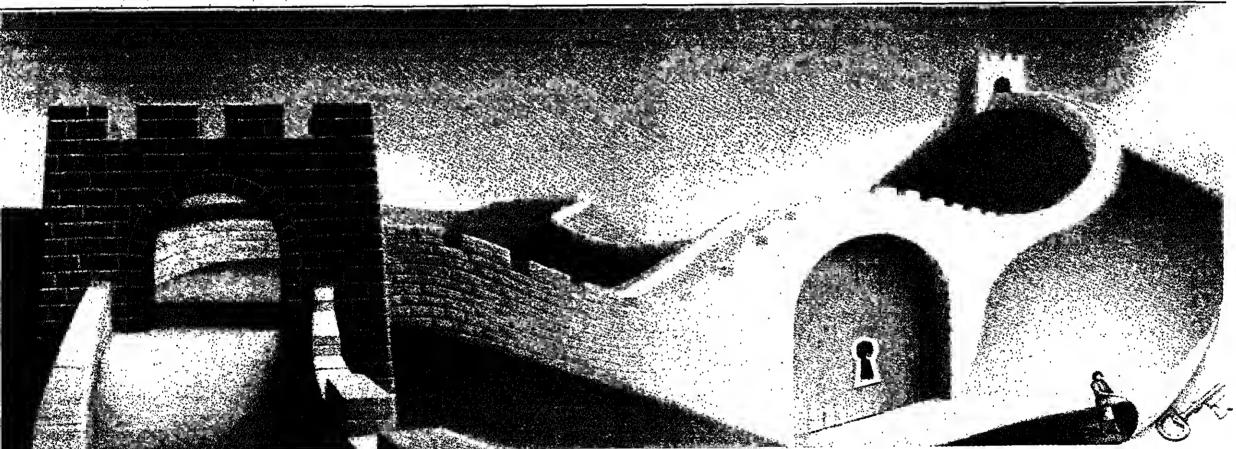
China's share of AF extinates
500 8% world GDP PPF sates
400 4% Sector relies
300 0 1978 80 82 84 86 88 90 Industrial production

S Kores
1978 79 80 81 82 83 84 85 86 87 88 89 90 91 92
Bouton: Debustream, Chinese authoritos

China's economic reforms are irreversible: economic growth since 1978 has averaged an astonishing eight to nine per cent a year and its share of world trade has doubled - see report by Edward Balls on page three of this survey. Survey graphics by Robert Hutchison; design, Robin Coles

Displacement returns, policies into makes the decisions? pages 2 to Politic contrast of power the military regional profiles pages 4 to Operating to the central world; to sign investment, trade pages 6 to pages 6 to pages 6 to pages 6 and 1 Hungland social leagues agriculture, population, jabour force, environment pages 10 and 1 This financial system banking informs, securities markets pages 11 and 1

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rather than cured

The government claims that

illegal interbank borrowing

has stopped and that half of

But Mr Lu Baifu of the

Development Research Centre is less sure. "The fundamental

problem has not been solved Money growth is still too high

the demand for investment is

still too high, and infinition is

Mr Zhu has, of course,

wider reform agenda to pursue

which would be jeopardised by too tough a stance on inflation

savs: "Zhu Rongji never telks

of stabilisation, only of a read-

instment of the structure of

lending. The government does

not want a draconian contrac-tion, just a modest tightenine."

Mr Zhn is walking a tight

rope, risking being seen to be

too tough and too soft at the

same time. It is too early to tell

whether he will remain suffi-

ciently popular to see his

reforms passed - and yet remain tough enough to keep

One western official in Rei

still too high," he said

the illegal loans have been

r Zhu Rongil, the vice premier in charge of China's economy, has taken two large gambles since

First, he enforced a tough austerity programme in the full knowledge that it would make him a number of enemies within the government and in the provinces and make it harder to force through the structural economic reforms.

Then, having taken the heat out of the inflationary boom, Mr Zhu bowed to pressure and eased monetary policy earlier than international lending institutions like the the World Bank would have preferred. This risks s resurgence of inflation and en eventual hard

The inflationary pressures which became evident in the first half of this year suggested then that a hard landing might be necessary. Last year's economic performance was impressive: economic growth of 12.8 per cent, inflation under 5 per cent and a current

But prices for raw materials such as steel and cement showed sharp gains partly because of a boom in the real estate market as hanks lent heavily, and often illegally, to

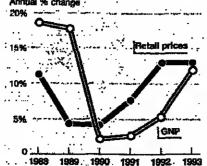
property companies. Economic growth was 14 per cent in the second quarter compared with a year before. In the same period, investment in fixed assets rose 62 per cent and inflation accelerated to 14 per cent nationwide and 21 per cent in the larger cities.

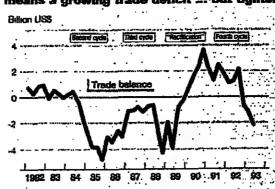
The government's 16 point plan, announced in July following a first, modest increase in interest rates in May, aimed to take the heat out of a growing speculative property boom. Many measures enforced government regulation which local central bank branches and pro-vincial governments had ignored. Up to 1,000 new development zones were closed hy

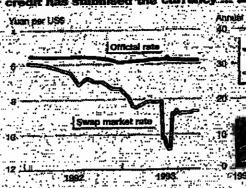
the middle of August. The biggest economic shock came not from the further rise in interest rates, but an administrative order from the central bank in Beijing that illegal inter-bank loans should be

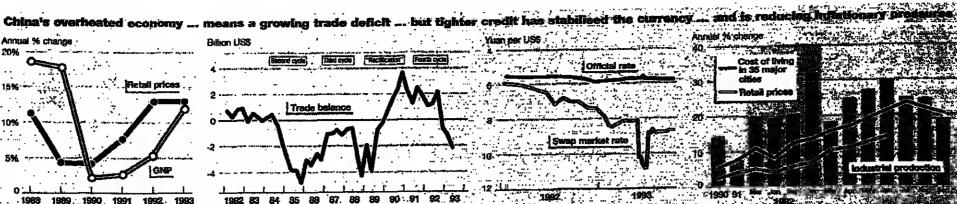
repaid to state hanks The only way to tighten credit was to pull the firewood out of the stove," says Mr Lu Baifu, director of the State Council's Development Research Centre. But, unable to liquidate their real-estate lending, hanks clamped down on lending to state enterprises,

he assumed control of the central bank in July.









The government has eased monetary policy but inflation is still worryingly high, says Edward Balls

CHINA 2

Mr Zhu walks an economic tightrope

who receive 70 per cent of state banks loans and rely on credit for working capital.

Enterprise deposits at the banks fell by Yn28bn in June, Yn34hn in July and Yn10.6bn in August. Broad money supply contracted in the summer nths, and the swap market exchange rate appreciated from its summer low.

The measures have restored some sort of order. Fixed asset investment, which grew by 68.5 months, actually fell by 10.4 per cent in August from July. Growth of industrial output slowed in September to 19.1 per cent compared with the same month of 1992, compared with 22.6 per cent growth in the entire third quarter over the samer quarter of 1992. Annualrate inflation in the 35 big cities was 20.7 per cent in Septemher, down from 23.3 per cent in July, while prices of key commodities are falling steel prices fell 34 per cent in the third quarter.

The effect of the credit squeeze was felt most severely hy state enterprises, many of whom found themselves unable to pay wages and complained hitterly to regional and national officials that they were heing unfairly treated. The result was strong political pressure on the central bank to ease credit.

An example of this view came from Mr Dong Fureng, a member of the standing committee of the National People's Congress. "Personally, I think Zhu Rongji's macro control measures should he more flexihle," he said last month.

SHANG YE XIAN FENG

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"Banks should quicken steps to provide loans to troubled

Policy has, in fact, been easad progressively since the summer, as Mr Li Lanqing, vice premier, confirmed recently: "There is no disagreement in the Chinese leadership," he said. "We are going

to loosen credit a little for profitable state enterprises and the agricultural sector.

Moreover, Mr Zhon Zhengqing, central bank deputy gover-nor, told a Beijing newspaper in October that the central bank had increased the supply of hase money by Yn10bn in August and September, compared with Ynl.46hn in the same period last year.

"This should permit the banks to increase loans during the fourth quarter," he said, although credits would flow initially to profitable enterprises. Inefficient enterprises would first have to demonstrate that they had taken

steps to reduce reliance on credit. But the risk remains that Mr Zhu has eased too

Urban inflation is more than 20 per cent while demand pressures persist. The trade deficit rose to \$6.97bn in the first nine months, with import volumes up 29.9 per cent compared with

export growth of just 6.6 per cent. The World Bank estimates that China can sustain growth of 8 per cent a year without overheating, but the government is still expecting 12 per cent growth this year.

the lid on inflation. But Mr Zhu is still walking. In short, the underlying inflationary momentum has Progress of eco probably been suppressed

reform: see facing page State Planning Commi

Tony Walker profiles the movers and shakers in China's economy

The meteoric rise of Zhu Rongji

senior vice-premier in charge of the economy. uneasily sits the crown, as tha saying goes. The reformist Mr Zhu, who

introduced a 16-point austerity programme mid-year, has entered some rough water after offending powerful vested interests in the state sector with his attempts to impose stricter financial discipline. But the 65-year-old electrical

engineer is unlikely to be fazed by criticism if he helieves he is on the right track. A native of Changsha in Hunan province close to the hirthplace of Mao Zedong, Mr Zhu is known for a stuhhorn streak, and a willingness to take risks. He has also experienced ups

and downs in a hureaucratic career that began in 1951 as an official involved in central planning after graduating from Beljing's prestigious Qinghua University, in the late 1950s, Mr Zhu's career went into eclipse after he joined criticism

OR Zhn Rongji, China's of the system in the "Hundred Flowers" campaign of 1957. During his years in the dol-drums, which included a stint in the countryside for "re-education" during the Cultural Revolution, Mr Zhu remained nominally a deputy division chief of the State Planning Commission from 1952-1975.

In the last years of the Cultural Revolution he was transferred to the Ministry of Petroleum. Then in 1978, the year that Mr Deng Xiaoping. launched his economic revolution, Mr Zhu became director of the Industrial Economics Institute attached to the Chinese Academy of Social Sciences, an important Dengist "think tank."

There followed jobs with the State Economic Commission, president of the Economic Management Institute affiliated with his alma mater, Qinghua University, deputy Party-Secretary of Shanghai in 1987, and mayor in 1988. The bold Mr Zhu earned a

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on Asia

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reputation for getting things done as mayor of the China's largest city: he was known as "one chop" Zhu - a reference to the seal used hy Chinese bureaucrats to signal approval in recognition of his sterling

efforts in Shanghai, Mr Zhu was transferred to Beiling as a vice-premier in 1991, elevated to the seven member standing committee of China's ruling politburo in 1992, made senior vice-premier in charge of the economy in March this year, and concurrently People'e Bank governor in mid-year. By any standards, it has been a meteoric rise, and has,

Lou Jiwei, the ideas man

AMONG Mr Zhu Rongji's core group of close advisers a key figure is Lou Jiwei, director of the Macroeconomic Department of the Commission for Restructuring the Econ-

inevitably, aroused jealousies.

While, the 42-year-old Mr Lou's substantive position is with the Restructuring Commission, his more important role is that of "ideas man" in the Zhu kitchen cabinet dealing with economic issues.

Indeed, he is credited with a vital part in formulating the 16-point stabilisation programme of mid-year. The representative of an international lending institution says of Mr Lou that he is "very influential" and "liberal minded".

Like Mr Zhu, Mr Lon is a graduate of Qinghua university - he graduated in computer engineering - and, among his more recent tasks, he was head of the Shanghai Commission for Restructuring the Economy. This was during the pariod when Mr Zhu was

Zhu Xiaohua, vouthful adviser

ZHU XIAOHUA, the new deputy governor of the Peo-ple's Bank, China's Central Bank, is another of Mr Zhu Rongji's youthful advisers, and like Mr Lou Jiwei, these connections stem from associations formed in Shanghai in the late 1980s. The 44-year-old

unlikely to be far below the surface. Chinese leaders are now fully engaged in manoeu-

vring for power in preparation for the post-Deng era.

The party can ill afford to be distracted, since it faces chal-

lenges on many fronts. Not

least of these is the widespread

public perception that, bereft of oew ideas and new faces, it

is less ralevant. Attempts to shore it up hy engaging in campaigns like this year's anti-

corruption drive are hardly

convincing. In the end, the par-

ty's survival will depend not

on propaganda but on the abil-ity of China's rulers to con-

tinue delivering improved liv-

For the time being, political

voices can also be heard advo-

cating greater pluralism, although political dissent con-

widening income gap between

prosperous coastal regions and

the impoverished hinterland,

and also hetween peasant farmers and urban dwellers.

tinues to be stamped upon.

ing standards.

and officials placed there are effectively Beijing's senior dip-lomatic representatives. Mr Zhu, described by a Chinese economist as "smart," is a native of Zhejiang province, south of Shanghai.



Reformist Zhu Rongli has a reputation for getting tillings done



Zou Sahue, the third-ranking Overseeing foreign tracks vice-premier among five Mr Zhu served as vice-president of the People's Bank'a Shanghai headquarters from

1987-1990. This was during Zhu Rongii's term as mayor. A graduate of the Shanghal Institute of Finance, Mr Zhu Xiaohua was seconded to the International Monetary Fund from 1991-92. He returned to be deputy director of the economic section of Xinhua news-

agency in Hong Kong before his appointment to the People's Bank in July. The Xinhua offices in Hong Kong are China's unofficial headquarters in the colony,

Li Jiange has a crucial role

LI JIANGE has the least pub-lic face of Mr Zhu's close staff, hut according to a Chinese economist familiar with the workings of the vice-premier's office, Mr Li plays a crucial role as a personal assistant and

speech-writer. Mr Li, who is in his forties. has worked in recent years in the State Council's Devalopment Research Centre, the Cabinet "think tank," and in the State Planning Commis-





sion. His substantive position is deputy director of the law and policy department of the Economic and Trade Commission, but he spends almost no time there these days. A West-ern economist describes Mr Li clear-headed." He is tipped for bigger and better things.

Zou Jiahua: wide connections

ZOU JIAHUA, the third ranking vice-premier among five behind Premier Li Peng and Mr Zhu Rongji, appears to have seen his influence diminished recently; hut with his wide Party and bureaucratic connections his present lack of prominence may be temporary.

The 67-year-old Mr Zou, is married to the adopted daughter of the late Marshal Ye Jianying, one of the heroes of the Communist revolution, and is a son of Zou Taofen, a famous intellectual and journalist from the Shanghai of the 1930s.

His responsibilities include industry and the State Planning Commission which is seen as a haven for officials antipathetic to Mr Zhu's reformist zeal. But the Shanghai-born Mr Zou himself is regarded as a moderate with liberalising tendencies. His long experience in the Chinese bureaucracy includes stints as Minister of Machinery and

Born in Shanghai, Mr Zon was trained as an engineer in the Soviet Union between 1948-55. He is fluent in Russian and speaks some English.

Li Langing's star is rising ...

THE fifth-ranking vice premer, Li Langing is one of China's more impressive efficials whose star appears to be rising. The urbane Mr 14, 61, has overall responsibility for for eign trade and education Among his more important tasks is selling China to the outside world. He is frequently charged with the task of receiving foreign visitors. In his previous role as Miniser of Foreign Economic Rela-

tions and Trade (Mofert), he travelled widely. He speaks able English. Much of his experience has been in the automotive sector. A graduate in enterprise management from Shanghai's prestigious Fudan University, he was trained at automotive plants in

the Soviet Union in the 1950s. Mr Li was appointed vicepremier in March, According to Chinese insiders he fought a successful rearguard action to stop the powerful Trade Ministry (now called the Ministry of Foreign Trade and Economic. Co-operation - Moftec) from being dismembered.

Wu Yi: "a smart, tough bargainer"

THE 55-year-old head of the Ministry of Foreign Trade and Economic Co-operation (Moftec). Wu Yi may not be the highest-ranking female in the hierarchy, but her "trade minister" role gives her the most prominence. Appointed minis-ter in March this year, Ms Wu is regarded as one of the younger breed of officials more likely to succeed. She first came to international notice when negotiating trade agreements with the US. Her opposite number, Carla Hills – the US special trade representative – said of her negotiating part ner that she was a "smart and

tough bargainer." Trained as a petroleum engineer in Beiling, Ms. Wu spent 25 years in the petroleum industry, most of them working in refineries. A Xinhua dis-patch listed her hobbies as tennis, golf, angling and reading -Tolstoy, Hugo and Balzac. Ms

Challenges for China's rulers

CONTINUED FROM PAGE ONE.



Chinese patriarch: In a rare public appearance, Deng Xiaoping, now 89, with his daughter, Deng Nen, visited Shenzheri in 1992. Deng launched China's second revolution, 15 years ago - with remarkable re-

With surplus labour of 100m among China's 900m peasants, there is no room for compla-

Widespread peasant unrest this year - more than two hunliberalisation has been ruled ont, hut inevitably, the sheer dred separate incidents had been reported by mid-year pace of economic change is unnerved the leadership, and eroding the party's ability to assert control as before. Faint prompted an urgent review of measures to improve the farmers' lot, including prompt payment of money owed for produce acquired by the state. Older generation Chinese lead-Among China's supreme challenges is to deal with the ers had not forgotten that it was the peasants who were the footsoldiers of the revolution.

While domestic issues, including the succession struggie and attempts to bring the economy under control with-

out risking severe retrenchment, have tended to preoc-cupy the leadership, other concerns have also intruded. China's spirited but unsucsiful campaign to secure the

2000 Olympics for Beijing would have retrierced among senior officials the realisation that engagement with the outside world will never be easy. Human rights issues, including memories of the Tianannian square massacre of 1989, almost certainly helped to torpedo the Chinese bid. But these officials would under-stand that China's ambitions to be a world power economic mounts ambitions to match.

cally and politically, by early
next century mean that retreat

Centure of now into brooding isolation has

The second secon

long ceased to be an option. Trade issues, including China's application to re-join the General Agreement on Tariffs and Trade and its afforts to preserve its Most Favoured Nation trading status with the US. make it imperative that Beijing strike out even more boldly into the international

Among promising develop-ments is the decision of Mr. Jiang Zemin. China's president, to attend an Asia Pacific **Economic Co-operation leaders** conference this week in Seattle. President Clinton and Mr Jiang have much to talk about not least how to place Sine US relations on a more business like basis, and thus avoid the risk of rupture over issues ranging from human rights to arms proliferation.

If the early 21st century is to be the era of the Pacific, there is hardly a more important relationship than that between the remaining superpower and a rapidly modernising state with more than one fifth of the world's population and eco-

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the very least Russia is likely to need World Bank help if it is the WANO governing board to need World Bank help if it is and deputy general manager of Electricité de France, told the little control.

which the nuclear industry has

NB POWER

In the Ukraine, unable and

CHINA 3

HE "bird in the cage" **■ ECONOMIC REFORM** was how China's leadership described its approach to economic reform in the early 1980s: the nurtur-

The cage opens and the bird learns to fly

But China's economic flight path will remain erratic for some years, writes Edward Balls

cranes which dominate the Guangzhou akyline or the congested streets and overflowing market stalls of Shanghai. Yat the dismantling of the

planning cage, and the decentralisation of economic decision-making, have caused severe economic and political difficulties for the government in Beijing. The next phase of reforms needs to find reformist solutions to the problems of growing inequality and macroeconomic instability if development is to continue at the same pace.

Decentralisation has been the driving force behind China's economic dynamism. Reforms have occurred step-bystep, often province by province, with liberalisation occurring first in agriculture and only later in the banking and state enterprise sectors. The

rapid output response to the decentralisation of farming kick-started reform, generating a substantial pool of savings which enabled local governments to encourage rapid growth in rural manufactur-

Equally important was the decision to allow selected provincial governments to aet up development zones, offering tax and duty concessions to exporters and foreign investors. Again, the response in terms of export growth and, later, the vnlume of foreign direct investment was dra-

This explicitly regional and decentralised approach has been important for a number of reasons: the central government has been able to test deregulation in particular prov-inces; provinces have been

keen to compete with each they say, threatens China's six months of this year illusother to attract investment; all have had strong incentives to encourage local enterprise and thus expand their own tax

But this regional approach

has also caused problems. By encouraging rapid growth in the southern and coastal provinces, the Chinese government has allowed the growth of wide income gaps between provinces. The World Bank estimates that 100m people still live in poverty, almost entirely in rural areas and more often in northern and western provinces where growth in rural enterprise has been much less dramatic

Beiling's reformers face, as a result, pressure from poorer provinces for aid from the centre combined with a large "floating" labour force which,

sacred "social stability". But. by allowing richer provinces more control over their own tax base and more power to offer tax concessions, the centre has been less able to redistribute revenue for spending on education and health.

HE most immediate problem for Beijing is macroeconomic instability. China does not have the social and physical infrastructure to sustain growth rates in double figures. But, without sophisticated monetary and fiscal levers, the central government has not had the means to keep growth at a sustainable pace. Each time the bird has soared higher, it has fallen back to earth with a higger, reform-threatening thud.

The overbeating in the first

ignoring restrictions on credit creation. Rapid growth and real estate investment in urban and coastal regions was quickly followed by inflation as infrastructure bottlenecks developed and raw material prices soared. While the central bank had lost control of credit creation, the government could not

trates the problem. Provincial

governments and local ceotral

bank branches responded to

last year's southern tour by

Deng Xiaoping by effectively

quickly raise taxes or cut spending in the overheating provinces. For all the government and the World Bank's talk of "indirect" measures such as interest rate increases, the government had oo effective means, short of a blunt across-the-board clampdown,

to slow the economy Fortuoately, this time the clampdown was enforced by reformers rather than conservatives. The need to develop more

sophisticated policy levers poses a dilemma for reformers. Curing this boom-bust cycle requires a re-centralisation of economic power, particularly over monetary and fiscal policy. But, if reform is to progress, this re-centralisation must occur with the support of the richer provinces and with out blunting China's regional dynamism. For this reason, vice-premier Zbu Rongii's determination to avoid a hard landing which would threaten support for planned reforms of the central bank, fiscal policy and the banking sector.

But Mr Zhu's task is more complicated. As the economy has developed, the step-by-step

approach to reform has become much harder. The central bank will oot be able to use monetary policy effectively until the banking sector acts competitively. The hanks cannot lend commercially until they are freed from the need to support loss-making state enterprises. But these state enterprises remain the main source of welfare services - housing, health and pensions. The state cannot allow them to go bankrupt, and workers dare not change jobs, until a new state welfare structure has been constructed outside the enterprise sector, a task which has only just

in sbort, the levers of macro economic control in China will remain difficult to use for fine tuning. Even if Mr Zhu succeeds in avoiding a hard landing and can reassert the central bank's authority, it seems doubtful that China has seen the last of its boom-bust cycles The economy is now almost certainly too open, and market forces too deeply embedded, for China's bird to be re-caged. But its flight path wlll remain erratic for some years.

HEN CHINA was grappling earlier this year with the vexed issue of what to do about an overbeating economy, no fewer than seven ministers from the economic sphere were despatched on inspection tours of the provinces.

ing of fledgling market forces

within an overall central plan.

But, as the bars of this cage

have been progressively dis-

mantlad, China's economic

Economic growth since 1978

has averaged an astonishing

8-9 per cent a year, the mush-

rooming of collective enter-

prises has reduced the share of

tbe old state enterprises in

total employment from 81 per

cent in 1978 to less than 50 per

cent today, China's share of world trade has doubled and

200m people hava been released from absolute poverty.

Nor has this new economic

freedom been concentrated in a

inces. From Guangdong in the

south, past Jiangsu province

on the east coast to Jilin prov-

ince in the north, the evidence

of dynamic economic change is

evident to the eye: in the rows

of advertising hoardings which

line the atreets of northern

Tianjin, the construction

few southern and coastal prov-

bird has stretched its wings.

Among these senior officials was Mr Liu Zhongli, the finance minister, who visited the booming coastal provinces of Fujian and Zhejiang. It was a salutary experience for Mr Liu who discovered widespread misuse of funds and a flouting of central government edicts by banks and by provincial

"I was shocked by certain phennmena," said Mr Liu of the practice of banks to ignore credit plans which required certain funds to be set aside for payments to farmers and also for key infrastructure projects. Instead, money was being shovelled into real estate ventures, often through trust and investment companies set up by the banks themselves.

"Personally, I went to the banks and checked their records," said Mr Lin. "I also went to construction sites to find out how money was being spent," Among proposed ventures that came to light was one for the construction of no fewer than 10 golf courses, The

■ ECONOMIC DECISION-MAKING

An exhaustive and wearying process



National Peoples' Congress in Belling's Greet Hall

emerged in early July to calm an overheating economy and bring order to a chaotic financial system, included a specific ban on the construction of new golf courses.

In the West, the idea of the finance minister thumbing through the records of local

economic decisions that financial institutions would seem laughable, but in China, the inspection tour remains a tradition. Mr Liu's tour of Furian and Zhejiang, as part of a fairly exhaustive process, which eventually yielded the

16-point stabilisation plan of

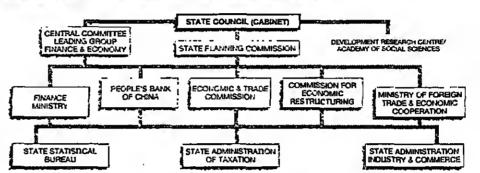
mid-year, reveals how eco-

nomic decisions are still made

in China. The process remains cumbersome, owing more to tradition than to modern methods of economic management, even in these days of glib use by Chinese officials of economic jargon that would have no place in Marxist textbooks. Implementation of the aus-

terity programme after problems of overbeating surfaced last year, began effectively at a work conference beld last December in Beijing and presided over by Mr Jiang Zemin, the general secretary of the Communist party. But It was not until May this year that alarm bells really began ringing at the centre, and this was after Mr Liu and his fellow ministers reported back on the extent of the problem.

Much time had been wasted since the Beijing conference. thus risking a more severe retrenchment than might have been necessary if prompter action had been taken. When the state council. China's cabiKey economic ministries, commissions, bureaux



net, met in May to consider a report of the state planning commission, time for action was already overdue. Indeed, there was little argument at that meeting about the need for drastic measures to calm the economy, and to put a stop to the rot at provincial level that was eating away at Beijing's control, and playing havoc with central government finances.

The state council laid down broad proposals for bringing order to the economy, and these were passed on to the standing committee of the Communist party's ruling polithure for approval. But It was left to Mr Zhu Rongji, as the senior Vice-Premier in charge of the economy to for-mulate detailed plans. These were the product of consultations among key economic policy-making elements of government, such as the People's Bank and the finance and trade ministrles, and also among the various commissions and agencies concerned with the economy.

These include, apart from the State Planning Commission, the Economic and Trade Commission, the Commission for Economic Restructuring. and the Development Research Centre under the state council. Another important element in the decisionmaking process that spawned the 16-point austerity plan and the proposed

reforms of the financial sector was advice from international financial institutions such as the World Bank and international Monetary Fund, A conference, joiotly organised by the World Bank and the Commission for Economic Restructuring, beld in June in the northern city of Dalian belped refine some of the ideas that were being formulated by the

LOSER consultation with international insti-tutions increasingly is a feature of Chinese decisionmaking.

Ultimately, however, recommendations and ideas were distilled by a hody which tends

oot to appear on organisational charts, that is, the Central Committee's leading group on finance and the economy presided over by Mr Zhu.

This supra-ministerial organisation, effectively signs off on key economic policy decisions which are then referred to the Politburo and State Council for formal approval.

The process by which eco-nomic decisions are made in China, especially where there might be risk of social and economic dislocation, is exhaustive and exhausting.

Like any bureaucracy, China's is riven by competing ambitions and policy differ-

Factional rivalries among leadership conteoders are often played out in the musty corridors of the ministries, commissions and agencies listed

Wbile Mr Zhu appears shrewdly to have streogthened his hand over key ministries and agencies like the People's Bank of which he is the governor, he still faces significant opposition from conservatives In bodies such as the State Planning Commission, whose own previously all-powerful role has been diminished by the market reforms.

Tony Walker



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FOREIGN EXCHANGE

Austerity reduces demand

Abolition of the two-tier exchange rate systems and the shift to convertibility could happen soon reports **Edward Balls**

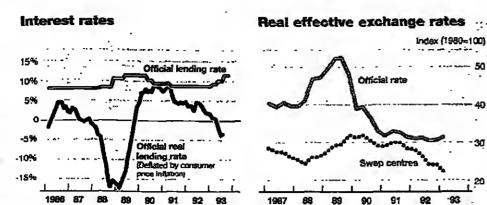
HE thrice-weekly foreign exchange market at the Tianjin foreign exchange adjustment centre opens promptly at nine in the morning. Seated in rows wearing numbered bibs, the traders from banks, large enterprises or brokers representing smaller companies - first speak into their microphones the amount of dollars they want to buy or sell. Then the buying and selling begins.

"Trader number 19 wants to sell 50,000 at Yn8.7 per dollar - who wants to buy?" cries the eer, the hid illuminated on the electronic trading board behind. Laughter rings round the room - the "swap market" exchange rate has been stuck at 8.7 for a number of weeks now. despite the fact that demand for dollars has dwin-

The market was much busier in the first half of the year, with a daily turnover of \$3-5m. but the government's austerity measures appear to bave reduced the demand for foreign exchange and turnover bas fallen to 83m a day on average. State enterprise traders appear to have staved away - only 16 of the 51 trading seats are filled - and business is completed

within 45 minutes. "About a month ago the seats were atl filled," says trader 19, a 37-year-old woman named Xu Cuie who buys and sells on behalf of enterprises in Tianjin's free trade zones. "There are too many sellers of dollars and not enough buyers - the enterprises just do not have enough local currency."

The Tianjin swap centre is one in a national network of 100 regional FEACs, establisbed in 1987 when the government moved officially to a dual exchange rate system, and which today form the backbone of what has become a relatively free floating foreign exchange market. Reform began a decade ago when the government relaxed rules



requiring exporters to submit all their foreign exchange at the official rate. Instead, it altowed them to swap their currency for Foreign Exchange Entitlements (FEES) which then could then use at a later date to buy currency.

in 1987, the government established the swap centres at which these FEEs could be traded, thereby establishing a dual exchange rate system. Access to these swap markets was initially vary restrictive, hut the regulations have been

progressively eased. Today, 80 per cent of China's current account transactions occur at the swap - or floating - rate: the official rate is used mainly for tourista who, by law, must exchange foreign currency at the punitive offi-

Companies must also sell 20 per cent of their foreign exchange earnings to the state at the official rate, and the government bas the right to buy another 30 per cent at the swap rate. The rest can be retrained or sold for FEEs which can

financial expert.

then be traded at the swap market, although these days the majority of trading occurs in currency. But the foreign exchange rate is far from heing a free market: the government still controls 50 per cent of foreign exchange, which it pur-cbases outside these markets and uses to manage the swap rate, and access to the market is still restricted.

Moreover, the government responded to the overheating in the first half of the year by trying to re-impose control. first by not devaluing the official rate as the swap rate fell in response to heavy demand foreign exchange and then by trying to cap the swap rate through administrative interventions. The result was to open wide a 45 per cent differ-ential between the official and swap rates and to force transactions into the black market until the government allowed

the swap rate to fall in June. Yet, despite this year's difficulties, many observers believe that the government's stated next stage of reform - abolition of the two tier exchange rate system and the shift to convertibility - could happen soon. That will require a national swap market, an aboto the FEACs and abolition of remaining surrender raquirements so that the government has to buy all its foreign exchange at the swap markets.

CHINA 4

For the central hank, this will mean that the exchange rate becomes a more effective monetary policy tool and will sharpeo the link between interest rates and the real ecooomy. But for the government and some state enterprises, it will remove a convenient source of cheap currency.

"Now is the right time to unify," says Mr Qin Chijiang, director of monetary research at the central bank. But Mr Liu Zhongli, finance minister, is ally closing the gap between the official and the swap mar-ket rates," be says. "But there is no timetable yet for unifica-

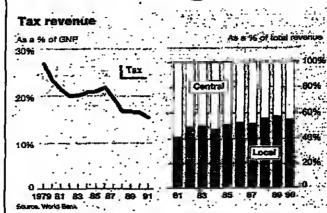


Shanohal Stock Exchange: with the growth in the number of stocks traded has come an explosion in the number of securities companies: see financial reports on pages 11 and 12 of this survey

New markets? Then talk to Japan's

■ FISCAL POLICY/TAX REFORM

A decade of radical changes



ECENTRALISING economic decision making to dynamic provincial governments has been at the beart of the central government's economic reform strategy, but this devolution of power has also caused severe problems for Beijing's reform-

Fiscal policy is one area where decentralisation now risks impeding further reform. Both the World Bank and the International Monetary Fund are keen that some re-centralisation of budgetary policy be st the heart of the next round of reforms. According to the Bank, "reforms to equip governmeot with the appropriate tools for fiscal policy are a matter of urgency.

China's budget data. although often opaque and irrationally constructed, provide a good indication of the radical changes which have occurred in the fiscal relations between the centre and the provinces over the last decade. Total tax revenue has dropped sharply over the past decade, from 26.7 per cent of gross national product in 1979 to 15.8 per cent in 1991.

Within this declining total, the share of reveoue which the central government retains has falleo from nearly 60 per cent at the beginning of the 1980s to 45 per cent hy the end of the decade. Meanwhile, the share of revenue collected by locally levied, as opposed to nationally set, taxes has also fallen.

HIS decline in total tax revenues was, in part, deliberate - the result of freeing the state enterprise sector from direct government control. This change is reflected in the growth of what the government calls "extrabudgetary funds" amounting to 15 per cent of GNP, largely surpluses of state enterprises. But revenue collection from eoterprises has fallen faster than expected as individual entarprises have negotiated favourable tax arrangements.

Meanwhile, the state enterprises continue to provide substantial welfare functions while loss-making state enterprises still receive cheap credit from the central bank, implying larger effective budget deficits than the modest budget gaps that the official figures

The fall in central tax revenues was also an intended consequence of the decision to give more antonomy shift to regional governments. In the late 1980s. the government introduced a new system whereby each province negotiated a three to four year taxsharing contract with the central government. State government have been given greater responsibilities in providing bousing and welfare sarvices to their populations, requiring more locally retained tax revenues. They have also been encouraged to offer tax incentives to foreign investors.

But these new arrangements remain a significant source of tension between the centre and the provinces. Some local offi-

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cial have been unhappy at the tax deals struck by fast grow-ing provinces, while the centre has been unable to enforce the contracts. In 1990, according to tha IMF, only six provinces recorded a surplus ever though 16 were contractually obliged to do so. But it was in the first half of this year that the revenue shortfall became particularly acute, resulting in the central government's decision to send teams of ministers to tour the provinces in the middle of this year to find out what was happening.

"Local governments have been abusing their power," says Mr Liu Zhongli, finance minister. "They reduced taxes to certain enterprises which meant less revenue for my ministry. But I inspected their books and put a stop to these practices, and now our revenues have increased."

The result of the fall in centrai tax revenue has been to the undermine fiscal policy as a macroeconomic policy weapon, while imparting an inflationary bias into the economy. Local governments have found it easy to over-run their budgets, while tax revenues have consistently lagged behind economic growth and

budget spending. Moreover, the government in Beijing has found it increasingly hard to use fiscal policy to offset the large growth in inter-regional inequality. Currently there are wide cross-regional differences in expenditures on education and health: spending per head in Shanghai is four times that in Sichuan province - while there is little relationship between a province's average income per head and the net transfer it receives

or sends from or to the centre. The Ministry of Finance is planning to address some of these deficiencies over the coming year. It plans to levy a uniform 33 per cent tax rate on all enterprises; to broaden and simplify the currently very limited valua-added tax by extending it across the country and reducing the number of rates from fourteen to two; and to introduce legislation next year for a new tax-sharing scheme which will increase Beijing's revenue share.

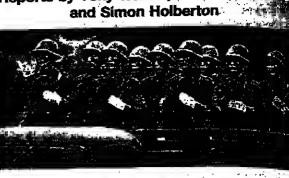
The details of the nev scheme are not yet known, but are likely to be an extension of a pilot "tax-sharing" scheme introduced in nine localities last year which clearly separated central, local and shared taxes. But the World bank has misgivings about the tax-sharing scheme, arguing that it does not move far enough away from the contracting system whereby the central government continues to rely on the remittance of locally collected tax, the fact which lies at the heart of the current difficulties, it prefers te idea of an inter-provincial equalisation fund to redistribute locally collected revenues.

But any system which suc-ceeds in raising the taxes paid by the richer regions is bound to be unpopular.

Edward Balls

Centres of power

Below, and on the following two pages correspondents examine the political military scene, plus regional developmen Reports by Tony Walker, Alexander Wico



The military: the great impondersh

Jostling for the Deng inheritance

N the first week of November, as a winter chill began to settle over Beijing, Chinese leaders gathered in the Great Hall of the People to celebrate publication of volume three of the Selected Works of

Deng Xinoping.
In the way of things in the Chinese leadership this was much more than a publishing event: it was both an acknowl edgement that the end was drawing nearer for China's 89vear-old patriarch, and an attempt to reinforce commit-ment to his reforming legacy among possible waverers in the ranks of Communist party conservatives.

Preparations for the post-Deng era have come more and more to dominate the ruling party's internal discourse, and to preoccupy its main personalities who are only too well aware of the difficulties that lie ahead. Manoeuvring for life-after-Deng touches, almost all aspects of politics in China, and the struggle for power and influence can only intensify as the moment of reckoning

Reformist legacy

The redoubtable Mr. Deng, who reemerged 15 years ago from political oblivion to steer China towards the international mainstream, and away from its years of isolation and despair, knows that words alone will not be sufficient to guarantee his reformist legacy, but time appears to have run out for him to re-shuffle for the third time the deck of leaders who will succeed him.

For the potential weakness of his legacy lies not in whether his inventiva theories stand the test of time - Mr Deng has "theories" while Mao had "thoughts" - but in the political durability of those who have been designated as his heirs. Nothing would place the Dengist legacy under greater threat than a crumbling at the centre brought about by bitter fac-tional strife and the absence of strong leadership.

While, Mr Deng - who was purged twice during the Cultural Revolution – has proved remarkably adept since his rehabilitation in 1977, at refashioning Chinese ideology in his own image, with useful catch-phrases, such as "Chinese characteristics", to provide a veneer for capitalist reforms, he has been much less successful in selecting and nurturing potential leaders. His earlier creations did not

stay the distance: namely Mr Hn Yaohang, who reigned briefly as party general secretary, before he was ousted by conservatives for being too lib-eral, and Mr Zhao Ziyang, who fell because of his alleged sym-pathles for the Tianamen protesters in 1989.

In the bitter aftermath of Tiananmen, Mr Deng was obliged to look beyond the central leadership group in Beijing for an official untainted by the tragic-June events. Hence, Mr Jiang Zemin's elevation from the relative obscurity of Shanghai party boss to general secretary of the Communist Party. Since then, Mr Jiang has also been appointed chairman of the Central Military Com-

mission and state president. But in the eyes of Chinese and foreign observers, far from bolstering the 67-year-old Mr Jiang's positing, these additional appointments suggest weakness. After all, Mr Deng, who has exercised more power in post-revelution China than anyone except Mao. himself, has never been premier, president or party boss:

assert his authority. In what was almost certainly an acknowledgement of the inherent flimsiness of the leadership group chosen to carry on Mr. Deng's work, much was made in late 1992, and early 1993, of a collective

he has not needed titles to

the shaky foundations of the avuncular, although hardly inspiring. Mr Jiang, and the Premier Li Peng, who was laid April. He returned to active

duty in September.

Mr Li, whose public image is that of a fairly ineffectual careerist, suffers from the fingering fallout of his involvement in the decision to crackdown on the pro-democracy protesters in 1989.

Both Mr Jiang and Mr Li are regarded as relatively conservative, although they are not averse to trumpeting reforms with

the prevailing current The strength of the leadership appears to lie in its secand tier, in the persons of Mr Qiao Shi, the 68-year-old chairman of the standing committee of the National People's Congress, and in Mr 2ho Rough, the 65-year-old senior vice-premier in charge of the economy. Both are members of the seven-man standing comwrittee of the ruling polithere.

But while Mr Qlao, who has long been responsible for overseeing China's security apparatus, enjoys widespread factional strength, doubts persist as to the reformist Mr Zhu's ability to continue his meteoric rise in the party and state hierarchy, once his mentor, Mr Deng, departs from the scene. Mr Zhu, who has has had a fairly bruising campaign since mid-year in defence of his 16will have made sor enemies, both at the centre and in the provinces. His status as a relative newcomer he was mayor of Shanghai before his transfer to Beiting in 1991 - renders him vulnerable in the factional struggles that swirl constantly about the leadership group.

Sc

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Loyalties

The affiliations and loyalties of other members of the Politburo standing committee - Mr Li Ruihuan, the 59 year old propaganda chief, Mr. Hu Jiutao, 50, who is in charge of Party discipline, and General Liu Huaqing, 77, the senior military figure - are some-thing of a mystery. Beyond the jostling for

power among the leading candidates in preparation for the post-Deng era is the wider issue of just how well equipped is the Communist party itself to deal with the challenges ahead.

The anti-corruption canpaign launched in the second half of the year was recogni tion that the party's tattered prestige was continuing to be undermined by a widespread perception that officials were profiting personally from the economic boom.

But in spite of a rash of exeofficials and a continuing noisy public campaign, the long-suffering masses appear not entirely convinced that the rectification drive is much more than window-dressing since those ensuared have been, almost without exception, relatively low-level func tionaries. People believe that the problem reaches high into the party itself, and that among the main offenders are the sons and daughters of senior officials.

In all the calculations about the way ahead politically, the military remains the great imponderable. There is no doubt that in the post-Deng era - as it does now - the People's Liberation Army will play a key role. Support of the top generals will be crucial for whomsoever emerges on top. army remains the guaranter of party authority. The professionalisation of military ranks has not changed that

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Peng, the Premier; Mr Clao Shi, Mr Li Ruthuen, Mr Zhu Rongji, General Liu Husqing and Mr Hu Jintao

Tony Walker looks at the influence of the armed forces

Long march to modernisation

OLONEL Pan Zhen-qiang, director of the Institute for Strategic Studies at the People's Liberation Army's National Defence University, has a vision of China's strategic sovironment that should hearten its neigh-

China, be believes, should press hard for multilateral security arrangements like the Conference on Security and Cooperation in Europe (CSCE) sions, and overcome mistrust that has bedevilled relationships for generations.

"Our priority is to try to change from confrontation which is a zero-sum game in nature to co-operative relationships," be says. "We do not advocate a transplanting of the CSCE, hut we believe such ideas can be adapted to the Asian environment

These views may be regarded sceptically hy Asian nations which have expressed alarm over what they perceive as China's attempts to extend its military reach with purchases of new weapons eystems from the arsenals of the former Soviet Union, and other sources such as Israel. But calls by Chinese officials for closer regional security co-operation appear to reflect a genuine interest in

finding ways to deal with

potential security problems Not least of the factors weighing in China's calculations is the enormous cost of acquiring modern weapons systems that would be required to project its power beyond its own borders. The continuing debate within the military over whether China can afford its

first aircraft carrier is just one example of these financial con-

While China increased the allocation to defence by 12.4 per cent to Yn42.5bn (U\$7.4bn) this year, the fourth straight increase in defence expenditure, spending remains low by most standards, even taking account of the fact that the hudgeted amount accounts for less than half of the total cost of maintaining the military. Military analysts in Beijing believe that talk of a Chinese regional threat is exaggerated, while they also acknowledge that the sheer weight and size of China's armed forces certainly make them appear threatening in the regional equation - "I don't buy talk of a China threat," says one stern official whose role it is to monitor developments in the military. Their modernisa-tion programme is simply not enough to make them a

regional threat." Mr Qian Qichen, China's For-eign Minister, seeks fairly regularly to calm regional concerns ahout his country's military intentions hy compar ing official expenditures with

those of the US and Japan.
"In terms of absolute figures China's military spending this year will be \$7.4bn, compared with \$274.3bn for the US, \$37.7bn for Japan,"he told a press conference earlier this year. His use of the phrase "absolute figures" is somewhat ingenuous, however, since, increasingly. China's military has been augmenting its meagre stipend from the state with husiness activities which have gone far beyond the original intentions of the founders of

the PLA who favoured such worthy money-making pursuits as agriculture and roadbuilding. The military has become ever more deeply engaged in bingshang, literally "soldier's business", through affiliated organisations like China North

Industries Corporation (Norinco), and China Poly Group Corporation. Both are heavily involved in the arms trade, and increasingly in other commercial pursuits, as A dramatic slump in China's

international arms trade from \$4.7bn at the height of the Iranlraq war to perhaps as little as \$100m in 1992 is ohliging the country's military-industrial complex to seek opportunities away from the arms business.

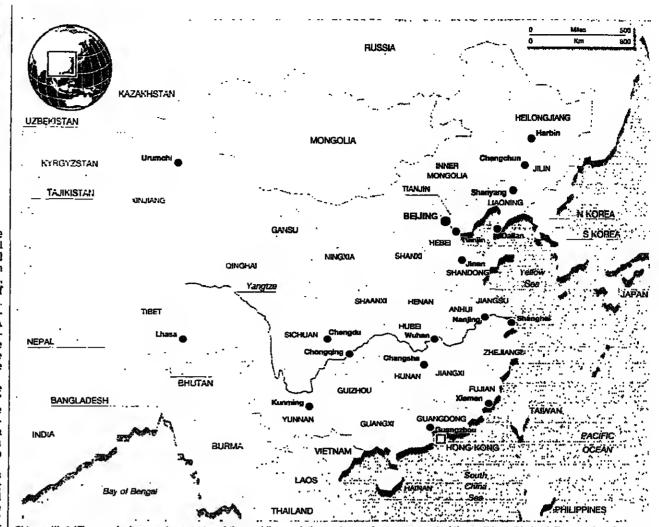
There is scarcely a branch of the Chinese military these days not engaged in some way or other in bingshang. "Sol-dier's husiness," has come more and more to mean "big

military whose commercial activities range from real estate speculation to trading in cars and other commodities, and even the management of discotheques and karaoke bars.

Unsurprisingly, the expanding business activities of PLA Inc., as China's 3m strong military is referred to io some quarters, has prompted fierce dehate within the defence Our main mission should be

the defence of the country,

said Colonel Pan from the PLA's National Defeoce Uoiversity. "We have to draw a demarcation . One sbould not go too far in pursuing business. Limited financial resources are being devoted to increasing the mobility of the army and building up air defences. The recent purchase of 24 Su27 fighters from Russia is part of



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SPECIAL ECONOMIC ZONES

Socialist showcases

towards a market econ-omy began in a sleepy border town to the north of Hong Kong called Shenzhen in Guangdong province.

Along with two other towns. in Guangdong and one in neighbouring Fujian province, Shenzhen has become the showcase for what China's leaders now call the country's socialist market development.

These "special economic zones" (SEZs) pioneered many of the reforms in company management, decentralised economic decision-making and forms of co-operation with foreign investors that are now commonplace throughout the developing regions of China. In pursuing these policies, the SEZs recorded startling high

rates of economic growth. in 1979, Shenzhen – the big-gest and most successful of the SEZs which also include Zhuhai and Shantou in Guangdong, and Xiamen in Fujian had a population of 320,000 and was one of the poorest locali-ties on the mainland. Today it is the richest area in China with a population of 2.2m. Its per capita income, at more than Yn10,000 (\$1,720), is nearly seven times the national average of Yn1,540.

Sheozhen has grown at breakneck speed. From 1980 until 1992 its gross domestic product rose by an annual rate of 46 per cent a year - making Shenzheo one of the fastest growing micro-economies in the world for which data exist. During the same period, industrial output expanded at an annual rate of 61 per cent, and exports by 63 per cent a year.

Mr Chen Biao, deputy director of Shenzhen's Planning Bureau, says: "We have a planned economy, but we have grown every fast. We call it 'Shenzhen style speed'. [With output growing] at 40 per cent a year, we are quite happy.
"Our target is to turn Shen-

zhen into an export-oriented SEZ for advanced industry and services - a socialist Hong Kong with economic prosperity and an adequate legal framework, to borrow the words of

Deng Xiaoping."
"Shenzhen-style speed" would not have been possible without the latitude the Chinese central government gave the SEZs to determine their own economic development. Of this, the most important was administrative decentralisa-

Allied to preferential tex and foreign investment policies. decentralisation of decisionmaking power allowed the

HINA'S long march authorities to cut through much red tape. It also gave full play to the "pragmatism" and "flexibility" for which Chinese officialdom, has recently become famed.

This was recently underlined when the financing of the Yantian container port - one of China's five strategic deep water ports - on the west coast of Shenzhen, was unveiled. The Yn500m (\$86m) first stage development will be owned and funded 70:30 by Hong Kong investors and a Shenzhenowned company.

As the SEZs, and Shenzhen in particular, developed they have also benefited from high level political backing from China's military-industrial complex. Shenzhen has become the window on the world for many of China's so-called "third line" industries - the military complexes that were transferred to regions deep in China's heartland in the 1950s and 1960s to protect them from the then perceived US threat.

Across the Pearl River estuary in Zhuhal; a similar story of rapid economic growth and big plans for future development can be told.

Both localities are feeling the

pinch induced by the central government's tightening of monetary policy. Idle, half-de-veloped, building sites are, however, a more common sight in Zhuhai than in Shenzhen.

Of larger significance to the two SEZs - in particular Shenzhen - is that costs of land and labour have risen in line with the growth in their respective economies. Both run the risk of pricing themselves out of the market.

Officials on both sides of the Pearl River are aware of the danger. They are now talking about the next stage of development, which envisages a growth in services such as hanking and finance, and a growth in high-technology and less labour-intensive industry.

Shenzhen has an ambitious plan to re-orient its economy. The city's planners want to turn Shenzhen into China's main export and foreign exchange earnings centre and a base for advanced technology, banking and finance. To date, however, there is little sign that foreign investors view either Shenzhen or Zhuhal as places to locate hightech industries - most foreign investment is directed at infrastructure projects, and assemhly rather than original manufacturing or research and

Simon Holberton

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CHINA 6

DEVELOPMENT ZONES

Ambitious targets

 HE AMBITIONS of Chinese provin-cial governments are on display in lheir development zones. In Yantai, on the Shandong coast, a gaudy banner proclaims that the "investor is god," and in Dalian, in the north, a billboard sets the goal of "huilding a world class yacht

Development zones are the greenfield sites in which local officials have let their imaginations flourish. State-run hanks have huilt lavish huildings, developers want a "millionaire's row" of luxury villas. and vacant stretches of land are enthusiastically described as a Chinese silicon val-

Beijing disapproves of the provincial passion for development zones, and closed 1,000 of 1,200 opened in eastern China. Village administrations had followed the trend started in 1984 by clearing farmland for their own zone, which stirred old fears about wasting scarce financial resource and the disappearance of agricultural

Mr Gu Hong, deputy director of the Suzhou National New and High-Technology industrial Zone, emphasised that his zone is "approved by the State Council" the Chinese government. On the morning of the Financial Times tour, the toilets at the zone's offices were perfumed and a meeting room prepared for a visit by Mr Wang Bingqian, the former finance minis-

ter and state councillor.
"There are 52 development zones approved by the State Council, and that

says Mr Gu. "The benefit of approval is that the state will provide funds for investment and encourage large enterprises to come here. It also means that we have a

preferential tax policy." The government of Suzhou, traditionally



known for its silk, ornate gardens and canals, describes the zone, approved last year, as the third stage of the city's development, and has built an elaborate model capturing the vision of universities alongside high-tech factories in tree-lined streets. Mr Gu says that the 16sq km of the zone has agreements for 130 ventures involving \$1.3bn in investment, 68 per cent of which is foreign. The zones has

means that the government thinks these attracted Philips, which has a television areas have conditions suitable for a zone," project, Upjohn, the US pharmaceutical company, and Acer, the Taiwanese electronics company.

At the Yantai Economic and Technical Development Zone, the boast is that the local bureaucracy will process a joint venture application within an hour, "even if the forms are incompleta." Given Chinese officials' love of finding fault with documents, the boast is even more remarkable than the zone's new karaoke bar, opened in an old Air China jet parked beside the

Mr Tian Fengcheng, vice director of the Yantai zone, said contracted investment in the zone has risen from \$360m in 1991, when much of the infrastructure was in place, to \$700m last year and another \$700m in the first nine months of this year. Around 35 per cent of the money is from non-Chinese companies, but the zone is falling behind the Dallan zone, to the north, which been particularly successful in luring Japanese investment.

"We find it easier to deal with US and European companies than Japanese companies." says Mr Tian. "Our Japanese friends are becoming more interested in Yantai, but they want very hig profits and they pay a lot more attention to details." In Dalian, 20 Japanese companies, with

the assistance of the Ministry of International Trade and Industry (Miti), have set up their own development area.

Robert Thomson

PROVINCIAL FOCUS: SICHUAN PROVINCE

Full speed ahead

Sichuan's provincial government is keenly aware of the massive influx of foreign money which has fuelled industrial growth in China's sonthern coastal regions. The governor, Mr Xiao

Yang, is determined to catch up.
The province has one-tenth of China's 1.2hn population but only 6.5 per cent of gross national product and 6 per cent of the country's farmland. Development of an already substantial industrial base is essential both to soak up surplus farm labour and to boost living standards. Mr Xlao's aim is to double the province's per capita income from the current 650 yuan

by the year 2000. Sichuan, hirthplace of Deng Xiaoping, was a testing ground for reform in tha late 1970s when Mr Zhao Ziyang, the former premier, was the province's party secretary. Its 90m peasants were early beneficiaries of agricultural reform and of township and village enterprises, the lowtechnology industrial ventures introduced to absorb farm labour. "Now the peasants can get food and clothes but the situation is still not so satisfactory," the governor

Township and villaga enterprises employ 30m people, a quarter of the prov-ince's population, but Mr Xiao's aim is to "To fulfil this target. we need a huge investment," he says. Sichuan, like other provinces, needs huge improvements in infrastructure and is weighed down by the behemoths of central planning: grossly inefficient stateowned enterprises which need reform and investment in new technology.

Mr Xiao estimates that to meet his development targets, Yn36hn of investment is needed each year and would generate to per cent annual economic growth. The provincial government itself can find Yn24-26hn, he says, ennugh to year - modest by corrent Chinese standards. The rest must be sought hy raising additional financing, from its own citizens, foreign investors or elsewhere.

Over-enthusiastic attempts by local officials to raise money led to a crisis to the spring. Farmers became npset on two counts: local governments imposed a series of taxes and charges to fund projects such as new roads; and money provided by the central government to pay farmers for their produce was diverted into real estate speculation by officials who issued IOUs to the farmers instead of cash. Farmers were unimpressed by protestations that the real estate would produce a substantial return for their com-

HOUGH the practices were not unique to Sichuan, the province suffered the most severe consequences riots and violent clashes which resulted in the dispatch of armed police as well as teams of officials to crack down on corruption. Mr Xiao says the tensions

have now been resolved. Though there may still be poverty and unhappiness deep in the countryside. there is every sign of rampant growth in Chongqing, an industrial port located at the meeting of the Yangtze and Jialing rivers, and Chengdu, the capital. Cranefilled skylines and hosy shops and restanrants underline the flowering of commercial activity.

Chengun boasts its first underground shopping centre. A subway is planned under its honlevards. Though a large statue of Mao Zedong waves a regal hand over the main square, he would he appalled at the vibrant commercial activity he now surveys.

The streets of Chongqing - which, because it is huilt on steep hills, has almost no bicycles - are clogged with traffic. A suhway is planned there too and, local officials say, will be unaffected by financing problems because it is to be

funded from Hong Kong.
"Chongqing is not like other places," says Mr Chen Yuanhu, vice mayor. "It is one of China's oldest industrial centres, with a huge base of industry. What we want to do is to make good use of money to develop key projects, not smaller

Chongqing's motorcycle industry, producing one-third of China's output, is an example both of how the enterprises' problems can be tackled and of what is still to be done.

Out of an arms factory in the huge Norinco group has come China Jialing group, where 12,000 employees turn out 18 per cent of Chinese motorcycle production under a technical agreement with Honda. Sialing plans to double output to 1m cycles by 1997. Il is profitable. But officials appear vague about precise comonents and use of profit, as well as about its shareholding structure. Little progress has been made towards dismantling the "iron rice bowl" commitments to the welare of em ployees and t

Meanwhile across the Yangtze river at the Chongqing Economic and Technological Development Area, the new China is being huilt at a feverish pace. Plots are being cleared for factories, even if much of the huilding actually in progress, including villas for expatriates, is for residential use. Soms 150 enterprises involving foreign participation have signed up for the zone, with \$360m of foreign money committed.

Alexander Nicol

■ CENTRE/PROVINCIAL RELATIONS

Looser controls from Beijing

R LIU ZHONGLI, China's finance minister, found himself this summer in Zhejiang and Fujian provinces on the south-eastern coast. Sent by vice-premier Zhu Rongji to help in enacting measures to slow down rampant eco-nomic growth, he was shocked at what he

"In one place the government was planning to establish ten golf courses," he said in an interview with the Financial Times. in another, the local government had unilaterally lowered the tax on enterprises, which had in turn reduced the revenue coming to his ministry.

Mr Liu and other top officials dispatched hy Mr Zhu found that many local governments had used money advanced by Beijing to pay farmers for their produce had been diverted into real estate speculation. The central government was forced to advance Yn2hn to help pay off IOUs given to farmers, which had caused widespread unrest including riots in Sichuan province. The economic boom's wilder sxcesses. which Mr Zhu has been seeking to curh, are a result of increasingly decentralised management of the economy.

Looser controls from Beijing have allowed provinces to develop rapidly and provide powerful engines for growth. Coastal provinces such as Guangdong, Fujian and Zhejiang have benefited enormously from massive inflows of investment since their economies were liberalised and opened up during the 1980s.

However, privileges granted to the coastal regions have prompted other provinces to compete, particularly after Mr Deng Xiaoping, China's leader, endorsed rapid growth early last year. They have sought to boost local economic growth and tax revenues so that they could, for example, finance much-needed improvements in Infrastructure.

Local authorities which have offered incentives and finance indiscriminately, particularly for real estate development. are a key target of Mr Zhu's measures.

This confrontation is likely to heighten tensions which have already arisen because of the widening gaps in living standards hetween different regions.

Money pouring into the booming south for

real estate or other investment has actually contributed to a transfer of resources from poor to rich provinces. Statistics show that the provinces which

have improved living standards most are those which have managed to: ☐ Lower the proportion of state owner-ship by boosting non-state industries. intervened the least in micro-management of the economy.

☐ Hung on to the most tax revenue.

☐ Attracted the most foreign investment.

HE BICCEST source of tension between Beijing and provincial capi-tals is the breakdown in orderly fiscal relations. Until 1980, all revenues were remitted to Beijing and then distributed back to the provinces according to the spending requirements set under central planning. The various arrangements which replaced that system have degenerated into ad hoc annual contract negotiations with each province, to Beiling's increasing disadvantage. The govrenment is sensitive to these problems and is taking a number of steps to counter it:

□ Inland provinces have been opened up so that they can offer investors the same privileges as those on the coast. ☐ Mr Zhu's 16-point programme to rein in economic growth, announced in July,

seeks to re-establish macro-economic and monetary control particularly by curbing excessive lending activities of provincial hranches of banks including the People's Bank, which is to become a full-fledged central bank

☐ A new tax-sharing system between the centre and the provinces is intended to come into effect next year.

Mr Xlao Yang, governor of Sichuan, the most populous province with 120m people including 90m peasants, said in an interview that the Zhu programme will "be good for the development of economic life because it will halance investment hetween the provinces."

Asked about political tensions arising out of widening income gaps. Mr Xiao who is a firm adherent of faster economic reform - says: "I think this is a very hig problem. The difference between coastal and inland provinces should he narrowed.

high-speed development within a reason-able structure, we should find measures to deal with the problem."

Most provincial officials agree that Mr Zhu's measures to deal with overheating are good, but deny that excessive speculation is a problem in their particular area. Mr Lin Dezi, vice-director of the Yantai economic commission, says: "The influence of the macro-economic controls has not been very great in Yantai. There were a few signs of overheating, but we maintain strict control ourselves on development, so there is no ohvious adverse

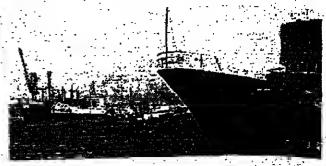
Mr Chen Zhenggao, vice mayor of Dalian, says "this is not an austerity programme - this is an attempt to exercise control over finance and things like illegal investments, which would be forbidden even in foreign countries."

However, there are indications that the Zhu programme has aroused opposition in the provinces which have forced its austerity to be toned down. Mr Wei Liqun, secretary general of the State Planning Commission, said Mr Jiang Zemin, China president and communist party general secretary, and other leaders have been touring provinces since late September to reassure local leaders that controls on the economy will not be too tight.

"Our leaders wanted to see the effects of the macro-economic controls and to reassure provincial leaders. The local leaders didn't criticise the central policies, but they made some suggestions," says Mr Wei. Economists at the International Monetary Fund, in a recent paper entitled China at the Threshold of a Morket Economy, point out that it may be difficult for other provinces to replicate the extraordinary growth of Guangdong province. They note that exports have contributed a large part of its growth, that proximity to Hong Kong and Macao has boosted foreign investment, and that its role as a laboratory for reform has allowed it to be more aggressive in reforming the economy than other provinces.

Opening to the outside world

Below, and on the following two pages, FT correspondents look at China's growing links with the international business community, plus the increase of foreign investment in to China



FOREIGN INVESTMENT IN CHINA

Big surge of interest

HE gold rush of foreign investors into China has taken on enormous proportions this year. According to official figures, actual investment In foreign-funded projects during the first nine months of the year exceeded \$15bn.

In the same period, the Beijing government approved 62.789 projects involving foreign participation, with a contracted value of more than \$83bn, a 171 per cent increase on the first nine months of last

The figures so far this year compared with agreements signed in 1992 worth a total of \$68.5bn, and actual foreign funds flowing into the country of \$11hn, more than double the totals for 1991.

ahroad is easily visible to anybody visiting China's leading cities. One western diplomat says: "We get bundreds of faxes from companies saying 'we're sending our top corpofrom outside China - from Hong Kong, Taiwan, south-east Asia and the US - dominates the flow of foreign capital into China. Though most ventures have been in light industry and concentrated in the south - representing a shift in the manufacturing workforce from other Asian countries into China to take advantage of cheaper labour - Asian-funded

Such statistics have to ha treated with caution. Equity from the Chinese side is often included in the value of projects, exaggerating the size of the apparent influw. Some investment comes from inside China but is directed through offshore companies to win tax advantages. Many agreements will not be put into effect.

Nevertheless, interest from rate team'."

The ventures which the latest visitors will eventually negotiate will spread investment well beyond the dynamic, hut increasingly clogged and expensive, coastal regions. Ethnic Chinese business

projects are growing in scale.

Most of the region's ethnic Chinese captains of industry, such as Hong Kong's Mr Li Ka Shing, Indonesia's Mr Liem Sice Liong, and Malaysia's Mr

However, most significant

nate them Shanghai, where foreign investment has lagged and

takes shape.

- The overall tendency is likely to be towards bigger pro-

investment in industrial parks where special efforts are made to improve infrastructure.

Meanwhile, indirect investment is growing through list-ings of Chinese companies on the Shanghai and Shenzhen stock exchanges as well as in Hong Kong, Naw York and most recently Sydney. A pleth-ora of "China funds" - mostly investing a small proportion of their money in China itself have sprung up to cash in on feverish investor interest.

However, hecause of the nascent state of Chinese stock markets and of the country's

China's priorities for new investment focus increasingly on improving infrastructure

Robert Kuck Hock Nien, are pouring money into huge projects. Singapore is planning to nild whole cities in China.

western and Japanese companies also recognised long ago the potential offered by China's reforms and growth, and have set about establishing

Those that were there first are finding that they have a growing number of different operations in China and are seeking better ways to co-ordi-

infrastructure is poor, is likely to benefit as the ambitious Pudong davelopment area

jects and concentration of

company law and accounting methods, direct participation in Chinese husiness will remain dominant form of foreign investment for years to

China's priorities for new investment focus increasingly on improving barrastructure, particularly power and trans-The government has seized

upon the huild-operate transfer formula, which has been used to a limited extent in the south, as an attractive means of hringing in foreign capital to big projects. However, western companies

are cautious since the BOT formula means having assurances about revenue streams in areas where price controls still exist. The pressing need for China'a industry is technology.

Most joint ventures involve a

form of technology transfer which means that the foreign investor is taking a risk in a country where there are worries about intellectual property

rights. However, the government has taken steps to protect copyright as well as to give fairer treatment to foreignfunded enterprises.

Mr Miao Fuchun, spokesman of the Ministry of Foreign Trade and Economic Cooperation, says: "Our general objective is to create a fair competitive environment according to the principle of the market

econony. To ensure this, we must give equal treatment in such areas as taxation, tax rates, exchange rates, transport, com

munications and work proce-Improvement of the legal framework and greater transparency of regulations are important in hring Chinese practices close to international

tandards, Mr Miao says. Nevertheless, China remains a very difficult environment in which to operate. Companies feel they must be involved in China'a boom, but find that ventures take years of irusura ting negotiations absorbing a great deal of management time, and that problems often arise once ventures have

started up. · A commercial attaché at one western embassy says his mes-sage to arriving businessmen is: "For goodness sake be careful, and why weren't you here

Alexander Nicol

Alexander Nicoll on practical issues for investors

The wise go well prepared

HINA can be a daunting place for people who know little about the country but feel that they must

phenomenon of the 1990s. Businessmen and consultants familiar with the country say that it is essential to take a iong-term strategic view when establishing a presence in China. Success requires patience, perseverance and flexibility. Here we provide some advice on how to set

about it. Preparation

Define your company's goals. A vague idea that China is a big market in which you should he present is far from

Objectives need to be established at the highest level and pursued with commitment this is how Chinese enterprises work and your negotiators will not be on firm ground unless you do the same. This means defining the desired product of a venture, the targetted market, setting management responsibility at a high level and establishing where the project fits in to your corporate strategy. This will help to determine what structure would be the most desirable: a wholly-owned Chinese enterprise, an equity joint venture, a co-operative agreement or

assembly contract Research should be done on government policies in your areas of business, since a venture will have a far greater chance of receiving strong backing if it is in line with official priorities.

Approaching the Chinese

Expect years to pass between your first contacts and the eventual atart of operations. Chinese husiness and government work on an informal system of personal relationships, called guanxi.

This does not imply corruption – it is simply the way that things get done. Relationships need to be huilt over time. through repeated visits and often by arranging visits for Chinese officials and executives to your headquarters. Do not reveal your full aims.

ideas or requests for specific information until you have established these links. Remember that the peopla you meet are themselves constantly seeking to huild guanxi. Over time you want yours to be as good as theirs, Alexander Nicoll | and this will help your negotiaand Robert Thomson ting position.

has been a radical change in intent. It is vital to ascertain practice within the hureau- who has the final say. deal. Nothing can be taken for granted. At the same time, companies should be wary of wide public mood swings about China and keep their focus on conditions in their areas of

Choice of partner and negotiation

Choosing your partner is the most important decision. If your first contact is with a ministry, do not be too easily directed towards the first potential partner suggested. Work out who has relationships of patronage with whom.

tax, access to foreign currency.

training. Western companies are likely to choose state-owned



hecause they have strong links with supervisory bodies, need injections of capital and technology, and are likely to ha permanent fixtures.

Beware of a state-owned enterprise which is seeking to diversify out of out-dated products into areas it knows little ahout. However, you may judge an apparently unlikely partner to be the right one; for example, Baskin-Robbins of the UK Allied-Lyons group is opening ice cream stores in partnership with the China Satellite Launch and Tracking

Control agency. The most important criterion in choosing a partner is establishment of a correspondence of respective goals. The goals of each partner do not have to be the same, but they must not conflict and they must require mutual co-operation. This cannot be discussed too much.

You need to be satisfied that

success of the venture is as

important to your partner as it is to you and that you agree on the means to achieve it. Part of the consideration of the right partner will be its location: infrastructure and costs must be assessed. Tax and other incentives offered to foreign investors are far more

uniform across China than previously. Understand on which documents the Chinese side places weight. A joint faasihility study conducted with official

Contractual and legal issues

Views differ on the need for detall in a contract. Negotiations are the vehicle for nailing down detailed agreements on all aspects of a venture's business - such as shareholding structure, product, technology transfer, local content, whether products are to be exported, marketing, finance.

management, recruitment, However, the resulting contract does not have the weight that it would have in the west because China lacks the necessary body of law as well as an



tually anything is negotiable. Topics which had been closed can be re-opened. There would however be seeking of redress for hreaches of contract through the courts. It is likely that the use of arbitrators will

Management

Many foreign companies will insist that they appoint the general manager of a joint ven-ture. Even if they do, it is important to keep camenting the friendship with the Chinese partner so that problems can be dealt with in a co-operative fashion as they inevitably

After start-up, management is the key issue. Foreign com-panies will generally place an expatriate manager on site whose principal role will be helping to improve management practices. Chinese staff may have a high level of technical expertise but are unfamiliar with the concept of management responsibility and often view it as being risky to take the initiative and cut

across hureaucratic practices. This does not mean that foreign managers must simply attempt to impose western practices. They have to be patient and adaptable in attempting to deal with Chinese problems in a Chinese Writings on Science Culture way, while increasing levels of

China's reform and expan-sion does not mean that there participation is more impor-tant than the earlier letter of you've just got solutions. you're doomed to failure. You have to see what the problems

Contacts A growing number of foreign consultants, law and accountancy firms have established offices in China and can pro vide considerable expertise as

well as access to Chinese contacts. Commercial sections of embassies in Beijing are good sources of information. In Britain, tha China-Britain Trade Group (071 630 5780) is a

Interpreters Good interpreters are essen tial and hard to find. Poor translation means poor communication. This will lead to verbal and cultural misunderstandings which could haunt a venture in future years, as well as failure to build the neces sary understanding, friendship

and trust. Translators may weaken your points to avoid giving offence, which can both help and hinder negotiations. Good, sensitive translators are likely to take on a wider role as advisers on the attitudes of the peopla with whom they are negotiating, as well as a general source of information. Companies increasingly need to have executives who are fu-

ent in Chinese.

Useful reading ... For serious economic information, the World Bank has a number of important publications and the IMF recently published Occasional Paper No 107, China at the Threshold of a

Market Economy.

Powarful, readable books includa Jung Chang's Wild Swams, Nien Cheng's Life and Death in Shanghai and Amy Tan'a The Kitchen God's Wife. Also interesting is Colin Thubron's Behind the Wall.

Historical overview is pro-

vided by Jonathan Spence, The Search for Modern China, and John King Fairbank, The Great Chinese Revolution 1800-1980. -A useful tale for investors is

Jim Mann'a Beijing Jeep. Chi nese Profiles by Zhang Xinxin and Sang Ye is oral history. Geremie Barme and Linda Jaivin's New Ghosts, Old Dreams is a collection of modern writings. Fang blzhi's Bringing Down the Great Wall. efficiency and responsibility. a sense of the Chinese must

NB POWER

the very least Russia is likely to need World Bank bein if it is In the Ukraine, unable and Electricité da France, told the

Mr Kemy Carle, change board the WANO governing board and deputy general manager of

fuels and other lactuse
which the nuclear industry has little control.

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Zemin sit down together at this week's Apec aummit, trade relations will be among the key items on their agenda. jing, Mr Douglas Newkirk, the assistant US trade representative, spelled out the trade liberalisation measures which the

Thesa included a singla national tariff policy, full transparency of trade regulations, the gradual removal of non-tariff barriers and a commitment to move to a full market economy.

But the following month, President Clinton added to these list a string of political conditions upon which China must make "significant progress" before its Most Favoured Nation trading status could be extended, and thus, implicitly, before China could join the

The conditions include the end of exports to the US of products made using prison labour, the release of political prisoners and adherence to the Univarsal Declaration on human rights. The World Bank estimate that failure to renew MFN status could cut Chinese exports to the US by between

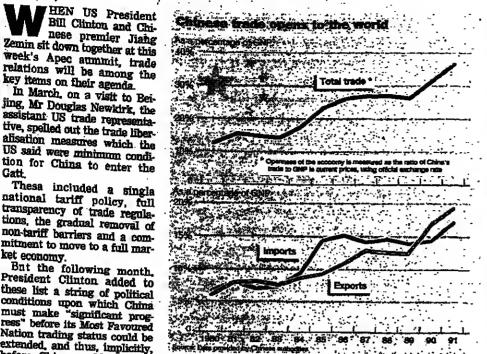
Chinese government officials can barely conceal their outrage - "It is already eight years since China applied for resumption of our contracting party status in Gatt and we have made great efforts to bring our trading system in line with others," says Mr Li Langing, vice-premier.

"The major obstacle is now the US. Wa are against linking political issues such as human rights with trade - these should be settled by political

is easy to see why the Chinese government in Beiiing baulks at this explicit linking of trade concessions to political issues, such as human rights. While limited progress has been made on the latter since reforms began in 1978, open trade and export-led growth have been at the heart of its post-Maoist economic

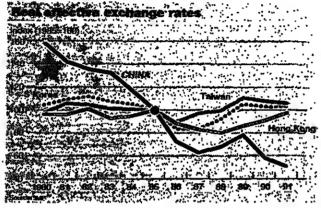
Up to now, China's trade record has been astonishing. Exports volumes grew at an average rate of 12 per cent a vear between 1980 and 1991 making China the world's thir-

:pare



China's share of world trade has doubled in a decade

Astonishing record



teenth largest exporter in 1991. up from 26th place in 1980, China'a share of world trade has doubled in a decade. Merchandise trade as a ratio of gross national product GNP, meaaured using the official exchange rate, has increased from 12.8 per cent in 1980 to 38

per cent in 1992. China has gradually disman-tled its restrictive trade regulations, allowed a substantial depreciation of the exchange

rate and encouraged foreign investors and the growth of the non-state sector to take advantage of cheap Chinase labour. The result are reflected in the changing nattern of exports. The share of labour-intensive

manufactures in total exports has risen from 86 per cent in 1975 to 74 per cent in 1990, while the share of capital-intensive manufactures has fallen from 50 per cent to 19 per cent over the same period.

By 1990, 20 per cent of exports now come from foreign funded enterprises, while the share of township and village enterprises had risen from less than 5 per cent in 1985 to over 20 per cent. China still has a long way to go in replacing direct administrative intervention with indirect price measures and removing opaque regulations hefore it will have a liberal trade regime.

But the result of decentralised decision-making has been. according to the World Bank, to make China's trade system de facto more open than its 32 per cent average nominal tariff rate and the piethora of import controls, licenses and non-tariff barriers would suggest.

Western diplomats in Betjing, while complaining that China is not dismantling its quota system fast enough, say are are encouraging signs. In the area of intellectual property, while enforce ment has lagged substantially behind new copyright legisla-tion and abuse is widespread government recently raided an illegal CD manufac turer in Shanghai.

Similarly, while China's trade regime is far from transparent, the trade ministry last month started to publish a periodic journal of regulations relating to foreign trade and stated that any state council directives which are not made public are henceforth invalid.

One sensitive trade issue in Sino-US relations, with textile quotas up for re-negotiation at the end of this year. is the ille gal trans-shipments of textiles through Taiwan, Hong Kong and the Dominican Republic in order to evade China's trade

Officially, Hong Kong alone receives 54 per cent of China's total exports. But, according to the World bank, adjusting for re-exports raises the US share of Chinese exports from 8.7 per cent to 25.6 per cent and the EC share from 9.2 per cent to 19.2 per cent, while the Hong Kong share slips back to a mere 6.2 per cent. Yet, regardless of progress

on the trade front, the operative condition for MFN renewal is "significant progress on human rights." Mr Warren Christopher, US secretary of state, said last month that still has a long way to go before significant progress has been made, a sentiment that Mr Clinton is likely to echo this week in Seattle.

Edward Balls

Accountancy and legal services are growing fast, reports Lynne Curry

Foreign firms move in

FTER years of being rigidly controlled by the state and treated as irrelevant, accounting joint ventures and foreign and domestic law firms are experiencing an explosive growth in

The changes have been profound. In the face of a serious shortage of Chinese financial experts with a real understanding of the workings of a market economy, international accounting firms, in joint ventures with domestically-trained accountants, have moved to fill the vacuum.

"The idea has begun to be accepted that accounting is for business and not for the government, and that international accounting standards should he practiced in China," said Charles Feng, deputy manager of Arthur Andersen Hua Qiang, the

accounting firm's joint venture here.
With the rise of accounting firms, the economy has also seen the emergence of a small group of well-connected domestic lawyers that work in independent co-oper atives, with at least five attorneys, in what are hetter known in the west as partnerships - "these co-operative firms are good and became good quickly," says a western lawyer. "They are a higger competitive threat than foreign law firms realise."

Within the last year, about 100-150 co-op erative firms have been established nationwide with at least twenty based in Beijing, six in Shanghai, and two in

Nearly all deal with commercial issues. Almost none handle criminal or civil cases. Their areas of expertise include financing commercial transactions, securities and listing advice, foreign investment and trade, real estate, commercial disputes, and intellectual property rights.

Co-operatives are dramatically different China's more conventional stateowned law firms. Attorneys operate along western lines, working longer, more west ern hours, making far larger salaries, and assuming more individual responsibility. For China, these "partnerships" are the

wave of the future. State firms are losing

co-operatives with the result that stateowned law offices may gradually fade away or be forced to change

With the emergence of independent domestic law firms, the role of foreign lawyers has slowly begun to shift. Although foreign law firms continue to offer legal, financial, and investment advice to both Chinese and foreign comoanies, some foreign lawyers are beginning to specialise more in legal consultations involving large business deals for Chinese companies overseas and for those Chinese enterprises seeking listings on the New York and Hong Kong stock

But fundamental differences hetween

Overhauling China's accounting practices proves to be a boon to foreign accounting firms

Chinese co-operatives and foreign law firms remain. Foreign lawyers are not allowed to argue a case in court for their clients, nor are they permitted to give advice or legal opinions on Chinese law, Despite the restrictions, foreign law firms are eager to cash in on China's increasing economic openness. Since the government has given official approval to foreign firms to operate here, there are now over 40 foreign law firms with offices in China, among them, such prominent companies as Paul, Weiss, Rifkind, Wharton, & Garrison, Denton Hall, Graham & James, and Coudert Brothers.

While foreign law firms compete with the newly established domestic co-operatives, they also frequently work closely with them on matters requiring vital personal Chinese connections and Chinese assistance in litigation and in arbitration. Still, foreign law firms bring a certain analytical edge that the fledgling law cooperatives lack, according to western attorneys. "Chinese firms are not yet

many of their best attorneys to these new strong enough on analysis: it's an approach they haven't yet developed," a western lawyer observes. While lawyers are rapidly moving to become the economy's legal foundation, accountants have become the country's economic linchpin. The government says Chinese state-run enterprises seeking foreign investment must adopt international accounting standards to make corporate bookkeeping understandable to foreign investors, and in the future this will be broadened to include all Chinese enterprises.

Chinese accounting practices have followed the former Soviet model, where ownership and profitability were irrelevant in a centrally planned economy.

In government-owned enterprises, you couldn't find the real owners," says Li Bichang, vice-president of KPMG Peat Marwick Huazhen. "The government is trying to use corporatisation to clarify ownerships. It is a difficult joh."

The monumental task of overhauling

China's accounting practices to hring them into line with a market economy has proven to be a boon to foreign accounting firms. All of the large multinationals are here and have ambitious expansion plans. Under the new regulations, they have formed joint ventures with accounting firms that are linked either directly or indirectly with the Ministry of Finance. Previously, they were permitted to do con-sulting and auditing only for foreign joint ventures. Now, they are able to offer the same services to any Chinese enterprise. Their focus will remain, however, on serving foreign joint ventures and on those Chinese enterprises that are planning to be listed on Chinese, Hong Kong, or New York stock exchanges.

While accounting and law are forging ahead, insurance remains largely closed to foreigners. The multinational AIG is the only foreign company that has been given a license to operate in China, it can sell life insurance to Shanghai residents and write policies primarily for foreign invest-

Sino-US relations: report by Alexander Nicoll

Clinton seeks a new start

HE MEETING due to be held in Seattle tomorrow between President Clinton and Mr Jiang Zemin, China's president and communist party general secretary, could signal a new phase in the complex relationship between Washington and Beijing.

Though officials of both sides have been cantions about the meeting's likely outcome, China has called it a "Sino-US summit". Mr Ll Peng, the premier, said earlier this month: "It conforms with the common interests of the two countries and is conducive to safeguarding peace and stahility in the Asia-Pacific region for China and the United States to maintain a stable and constructive relationship."

Mr Clinton has set the tone for deeper links by embarking on a new multi-faceted approach to China in recent months.

On the one hand, he has set new conditions for next year's renewal of China's most-favoured natinn (MFN) trading status - thereby creating new strains in the relationship and posing a severe threat not only to Chinese economic progress but also to US exports and imports. US officials insist that MFN status will be

Continued on next page



CHINA & EASTERN INVESTMENT COMPANY LIMITED

Extract from the preliminary announcement of final results for the year ended 31st July, 1993.

	1993	1992
	US\$	USS
Net assets	53,817,874	49,569,350
Revenue	2,166,789	1,858,654
Administrative expenses	814,214	1,395,050
Profit before taxation	1,352,575	463,604
Taxation .	39	770
Profit for the year	1,352,536	462,834
Special interim dividend paid	-	204,000
Final dividend - proposed	1,224,000	204,000
Profit for the year - retained	128,536	54,834
Earnings per share	US\$0.066	US\$0.023
Final dividend per share	US\$0.06	US\$0.01
Ner asset value per share	US\$2.64	US\$2.43
Other transfers to reserves Net profit on disposal of ancestments Increase in valuation of investments	US\$2,518,671 US\$1,601,317	US\$406,164 US\$13,804,961

"... The strong growth in China & Eastern's earnings has continued with the profit attributable to shareholders increasing by 192% ... the Board looks to the future with confidence and believes that there will continue to be excellent investment opportunities for the Company through which the shareholders of China & Eastern can enjoy long term capital appreciation."

The Rr. Hon. The Lord Marsh of Mannington Kt

At 29th Ocrober, 1993 China & Eastern's unaudited net asset value per share was US\$3.47, an increase of 31% since 31st July, 1993.

There are now 32 companies listed on the two Chinese 'B' share markets with a combined capitalisation in excess of US\$1.5 billion. The 5 'H' shares had a capitalisation of some US\$1.5 billion at 3rd November 1993. The availability of investment opportunities continues to expand beyond the confines of the Shenzhen, Shanghai and Hong Kong Stock exchanges. Chinese companies now have listings in the US, UK, Hong Kong and Australia. This process is expected to continue as China's capital requirements confinue to grow. As China & Eastern's investment advisors we are following these developments with great interest and have been active in the 'B' and 'H' share markets on their behalf, as well as making investments outside of the Hong Kong and Chinese stock markets.

Copies of the annual report and accounts are available from its registered office: 8th Floor, Princes Building, Hong Kong.

> Baring International Asset Administration Limited acts as advisor and fund manager to China & Eastern Investment Company Limited.





Reform has come gradually to China's industry. Here, and on the following four pages, Robert Thomson, Tony Walker, Bronwen Maddox and Edward Balls chart the progress of key sectors



was called in to clean up the

mess. And, for example, the

New Asia General Corporation

in Yantai, on the east coast,

has been awarded the title of

"Star Unit" hy local officials

for expanding into business

area in which it has no exper-

tise and, in some cases, almost

no hope of success in already

But the 2,000 workers, many

of them farmers turned factory

managers, have huilt on the early success of a steel plate

factory, creating 18 subsid-

iaries, which churn out instant

noodles, mineral water, lifts,

and "hiochemicals". Like other

work units, they have just ven-

tured into the hotel and taxi

business and are huilding a

cluster of villas on a nearby

Asked which is the most

profitable of the businesses. Mr

Li Xuehen, s vice general man-

ager at New Asia, sighed and

said: "The steel plate factory.

The production scale at that

factory is the largest and the

prices are good. The food and

drink markets in China are

very difficult, but we hope to

make a profit with our Xinxin

The relaxation of central

control, and the rapid expan-

sion of companies such as New

Asia, explains the fall from 12

per cent to 6.5 per cent in the

proportion of planned indus-

trial output this year, As well,

there was "guidance" in the

noodles this year."

overcrowded markets.

■ INDUSTRIAL REFORMS

Central controls are eased

Balancing rapid development and popular opinion appears to be the guiding principle of the government, reports ROBERT THOMSON

N the early years of China's economic reform, factory managers and Communist party secretaries did their joh satisfactorily if they expressed support for change and spiced their sentences with the language of newspaper editorials and internal party documents.

Reform has come gradually, sometimes erratically, but the accumulated change has altered the character of Chinese industry. Factory managers, whose tasks were neatly described in a state plan, are now aiming at the moving target of a market, and the government wants to peel away the welfare functions of the work unit, leaving a corporate

The nature of opposition to industrial reform bas also changed. In the past, Communist party leaders fought over points of ideology on issues such as bankruptcy, but the reluctance of local governments to use the tool of bankruptcy now has more to do

A fron and steel western
Beijing's western
doubt as

suburbs is left in no doubt as

to the most important event in

the steel giant's recent history.

opaque Chinese system

Shougang's charter, including

the establishment of the China

Shougang International Trade

and Engineering Company.

and the granting of a coveted

with angering workers and dis-rupting "social stability", Ideological arguments have been settled by the success of reform, but the government is yet to solve some of the more difficult questions confronting industrial China. Many large state-owned companies are still soaking up subsidies to cover losses, and the "deht chains". the networks of unpaid debts in the state sector, appear to be lengthening again.

Smaller, collectively-run and

private companies are diversifying into new areas with a passion, pushing up the national rate of industrial output, which rose 23.4 per cent in August, against a year earlier. But some of these new ven tures are flooding the market with poor quality products that were a good idea last year hut have already lost their niche. Change is begetting change Factories, such as the Shenyang Cahle Works, now respon-sible for their own profitability, are experimenting with foreign exchange hedging for the first time. As Mr Wang

a team to research the market and will begin operations next For the first year in its postrevolution history, Shenyang Cable says that products are

Fuyao, vice president of Shen-

yang Cable, explained: "We

import raw materials and we

have been hurt by exchange

rate fluctuations, so we set up

not sold at a discount for special state projects, and the company has decided that it must trim 1,000 from its 12,600 workforce. But the factory's suggested solution to that awkward problem is typical of the central government's response

dictions. "We, in the management, are not going to decide who should be among the 1,000. Ws will let the workers decide among

to reform's unresolved contra

Poor quality goods that were a good idea last year flood the market

themselves. For example, if 600 people are in a certain workshop, we will say that there should be only 550 and let ths workers select who the 50 will be. Then we will approve their decision," says Mr Wang.

Similar difficult decisions are being faced and avoided in factories throughout the country. The "responsibility system," introduced after early successes in reforming agricul-ture, has taken hold, but factory managers and the Communist party leadership are still ready to pass the parcel of responsibility, which hinders the identification of wor-

rying trends in industry. Debt chains were hurting industry many years before Mr Zhu Rongi, the vice-premier, per cent of production, com-pared with 34 per cent a year ago. China'a government has allowed markets to flourish and encouraged competition, but some of the country's largest companies and their managers are ill-equipped for these new conditions. About 31 per cent of state-owned factories reported losses in the first half. hut the actual figure is probably far higher, as accounting is one sector still in need of

form of estimates for about 25

In Shenyang, the northern heart of Chinese heavy industry, the municipal government estimates that 38 per cent of factories in its care are losing money. The government has asked for extra central funds to ensure that these companies, which double as welfare institutions, can continue to provide housing, kindergarten and leisurs facilities for their unwieldy workforces.

Company housing reform began six years ago, hut stalled because local governments are reluctant to push rents to levels that make the purchase of a home an attractive alternativs. When reform began, dehate about the rights of ownership in a socialist country distracted officials, but now the party is hesitant because of its fears of instability.

Balancing rapid development and popular opinion appears to be the guiding principle of the government, but some officials and factory directors are still inspired by ambitious industrial output targets of a kind that once excited Chairman Mao Zedong in his rush for growth. However, in searching for role models, Chinese offi-cials are looking elsewhere.

Mr Cai Weici, deputy director of the Ministry of Machinery Industry, has turned to Japan and its Ministry of International Trade and Industry for an example in guiding Chinese companies: "Their experience is very inspiring. We have done very careful research on how they handled the period of rapid growth and the reform of industry. We are like Japan in Bold plans to sell-off state industries

Pain in the provinces

Officials in Beijing are debating ambitious proposals for large scale sell-offs of state enterprises

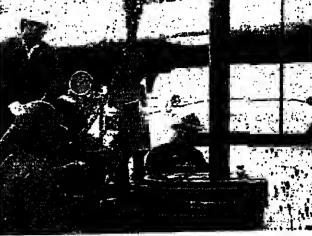
HILE the debate goes on in Beijing, the reform of state industry is a painful struggle in the provinces between factories and the local government officials who have traditionally ruled over industry

A year ago, the Chinese government introduced "regulations on the transformation of the operational mechanism of state-owned industrial enterprises," which were supposed to clarify the rights and responsibilities of factory managers, and contribute to the gradual commercialisation of the state sector.

But a government research team dispatched to review the mpact of the regulations has found that local machinery and other industrial departments are raluctant to let go of their. control over the factories, particularly those not large enough to have a network of influence in Beljing.

Mr Zhu Rongji, the vice-premier, was sxpected to raise this issue at a meeting of the Communist Party's central committee which hegan last week, and also wanted delegates to approve the widespread auctioning of small and medium-sized state factories, intended to shift some responsibility for loss-making compa-

nies away from the state. Mr Zhu is concerned by a separate obstacle to the party's. attempts to turn state industries into corporate entities. similar in responsibility, if not ownership structure, to a west-



Oil workers drilling in China's western Tarim Basin

ern company. Chinese ministries and their myriad, sometimes loosely-linked departments and branches have been spinning off new companies at a remarkable rate, again hlurring the lines between government and industry. One reason for the backlash against Mr Zhn's efforts to cool the economy is that it has hurt these newly-emerging companies. involved in everything from property dsvelopment to the personal computer trade. The government departments were annoyed that bank lending slowed just as they were reach-

action. But these government departments and their corporate ventures are competing unfairly against established companies and other new entrants. They are often responsible for issuing business licences, a privilege they are prone to abuse, and they control state funds for their industry, which is naturally kept in the corporate family.

ing for their piece of the

In the longer term, the gov ernment is planning to shift the welfare functions away

from state factories, for example, by encouraging home ownership and establishing a public insurance scheme that will cover the cost of welfare benefits. These reforms remain experimental, and, as a northern Chinese factory manager complained, he has to pay market rates for raw materials, and still provide all the old

social services. If the responsibilities of Chinese companies become more corporate, then the government will be able to introduce an ownership scheme, proposed by a group of young Beijing economists, which would create four distinct types of shareholders, and ensure that the companies can still be called state-owned. Shares will be held by a state investment fund, linked to the present departments responsible for industry, and there will be cross-ownership hy suppliers and friendly companies similar to the Japanese keiretsu system, as well as sales of shares to employees and investors.

Robert Thomson

Tony Walker reports on the dramatic expansion plans of an engineering giant

Shougang has international ambitions



fields of finance and foreign trade." There is little, it seems, that Shougang cannot do.

banking license. Mr Pan Huanyuan, Vice According to company President of International Operations and a Shougang literature, Shougang is now empowered to "engage directly hoard member, said that the in import and export business. company's ambition was to become a "trans-national set up plants and run joint ventures ahroad, undertake enterprise". A decision to accelerate the expansion of its engineering contracts abroad and conduct lahour services. activities ahroad had heen Shougang was also empowered taken hy directors late last to operate husiness in tha

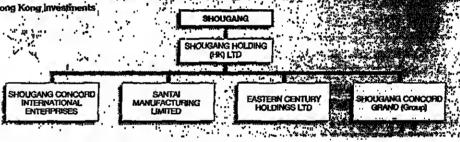
partnership with billionaire Li Kashing in a steel company -Shougang Concord Inter-Enterprises. national previously known as Tung Wing Steel Holdings.

Other Hong Kong invest-ments include interests in a metals trading company, an electronic component manufacturer and a property company. Among partners in the property company, known as the Shougang Concord Grand (Group) is Mr Deng Zhifang, the son of Mr Deng Xiaoping himself. These connections will have done no harm to Shougang's global amblitions. Shougang's move into Hong

Kong has enabled it to secure "back door" listings on the local stock exchange, opening up prospects of the steel giant transferring some its mainland interests to these listed companies. The company's Hong Kong investments will also facilitate additional capital raising in the local market. Mr Pan says that in selecting

Hong Kong as a "fortress" for its international ambitions, Shougang was mindful of its

Capital iron and steel works



advantages as a "centre of finance, information and communications." But he also made it clear that the company was intent on seeking opportunities in the wider world.

"Shougang is interested in everything, although, of course, we are not interested in running a cemetery!" hs

To this end, the company took control of the Mesta Engineering Company of the US in 1988, and last year it purchased an iron-ore mine in Peru for U\$120m. It is now looking for further investments in the mining sector in places like Latin America,

Australia and South Africa. In China itself, the company began in 1979, after reaching agreement with the authorities

on a new "responsibility system" under which it was allowed to retain a share of its profits for re-investment, diversifying into such areas as construction, real estate, electronics, ship-building, shipping, the manufacture of auto parts and

> textiles. Shougang's employees number 280,000, the majority of whom are engaged in either operating the company's iron-ore mine near Tangshan, north of Beijing, or at the Beijing plant which resembles a small

town with 60-70,000 people resident there, and engaged predominantly in steel-making activities.

Steel-making accounts for about 80 per cent of Shou-

5.7m tonnes in 1992.

At present, the steelmaker ranks third in production behind the Anshan works in Liaoning province, but plans to be number one in China by the end of the century. Another ambition is to be ranked among the world's top 10 steel manufacturers. China this year will produce about 80m tonnes of steel, making it the world's third largest producer behind the US and Japan.

The Shougang official noted that per capita steel consumption in China was less than 70 kilograms compared the world average of 150 kilograms. This left much scope for increased business, as China became more affluent.

"China's 250m families need more and more steel products," he says.

Apart from its Beijing plant which will reach its maximum production capacity of 10m tonnes by the turn of the century, Shougang is planning a giant new steel-making facility in Shandong province, south-

east of Beijing. In partnership with Mr Li Kashing's Cheung Kong Holdings, the company will invest Yn22bn in the first phase whose production would reach 5m tonnes annually. A second phase would double capacity to 10m tonnes. Shougang could not be accused of lacking ambition ... or connections.

Pacific Economic Co-operation

(Apec) forum is of more than

just aymbolic importance. It

underlines China's growing

role as a political and eco-

nomic auperpower in the

In terms of regional trade

politics China is keen to cloak

itself in the banner of free

trade and will resist turning

Apec into an Asian version of

Mr Wu Jianmin, spokesman

for the Chinese foreign minis-

try, says: "We see Aper as an

open trade bloc, rather than a

closed one. We are not in

favour of an exclusive, formal-

ised trade bloc but one open to

the European Community.

A fresh approach by the US

Continued from previous page

revoked if there is not significant progress on human rights, trade and nuclear proliferation issues. The US has also stepped up

pressure on China hy imposing anctions because of weapons sales to Pakistan. Relations were further impaired by US suspected of carrying poison gas ingredients to Iran. An aspection found no trace of them and China demanded an apology.

But on the other hand, Mr Clinton has sent a number of top officials to Beijing to engage China in much higher level discussions on issues such as trade, buman rights, agriculture and military mat-

The US agriculture secretary. Mr Mike Espy, last month became the first of Mr Clinton's cabinet to visit Beijing and senior officials from the State and Defense departments as well as the deputy US Trade Representative bave all held talks there.

This contrasts with the approach of the Busb administration, which substantially reduced official contacts after the 1989 Tiananmen Square killings but resisted congressional pressure to set condi-

tions on MFN renewal. The Bush approach provoked fierce criticism from congress members concerned about human rights, but also

Washington failing effectively to address China's growing economic power and regional influence.

The new US tack is an attempt to construct an over-

China insists that trade and human rights should be treated as

tion of a memorandum on prison isbour. However, in spite of these Indications, US officials are

caused alarm among academles and husinessmen wbo saw

arching policy of engagement with the aim that issues which are thorny, such as trade and human rights, become simply part of a much broader rela tionship and lose the high profile which hampers progress

separate issues

upon them. It recognises not only China's sheer complexity but also its rapid economic development, in which US business is deeply involved, and its growing regional links. Recent contacts bave been friendly and US officials see scattered signs of progress, for example on specific trade issnes such as pirating of copyright. China bas undertaken to publish all regulations relating to trade in a new official gazette, removing the bugbear of secret rules. There are bints of a closer understanding on implementa-

also at pains to make clear

that the threat of MFN termination is real. Mr Warren Christopher, secretary of state, told husinessmen last month that MFN could not he renewed oext Jnne unless there was steady and significant progress on human rights, trade and unclear pro-

In fact, Shougang, which

ranks as China's fourth largest

industrial enterprise and third

biggest steel producer, had already signalled its amhitions

in the international market

subsidiary Shougang Holding (Hong Kong) Ltd. it had begun

swooping on a clutch of listed

Hong Kong companies, and in

the process forged some

powerful alliances, including

Through its wholly-owned

The US demands are mainly general. But US officials said specific progress must be seen in implementation of the memorandum on exports of prisonproduced goods, and on the granting of passports to eligi-hle Chinese citizens who wish to travel.

The picture as seen from the US is mixed. China is thought to have freed most of the dissidents who were arrested for their 1989 activities in the Tiananmen Square demonstrations, and has released some other dissidents. However, it also launched a further round of arrests of dissidents and reporters and new trials are

expected soon. Against the greater freedom of speecb now evident in China must be set a recent official announcement which could signal a clampdown on satellite receivers which allow millions of Chinese to watch the Hong Kong-based Star Television network and other satellile broadcasters.

China's view of these issues

starts from an entirely differ-

ent position and results in

vebement rejection of the US

The Beijing government's concerns are principally domestic, with its main forsign policy objectives being preservation of its borders and the development of friendly relations with all countries so as to permit continued economic development. It believes that development of the economy takes precedence over pursuit of a western concept of human rights. Beljing rejects the idea that a developed China poses a threat to the

world as "shallow". It says that trade and human rights are separate issues which should be treated as such, and that MFN is normal practice rather than a favour for the US to grant. Termination of MFN status

would be a double-edged sword, says Mr Wn Jianmin, foreign ministry spokesman. "Both China and the US will be hurt," he says, pointing out that the two governments

have common interests in eco-

nomic development. "A lot of Americans do not really understand much abont Cbina," says Mr Wu. "Quite often there is a gap between people's perception and real-

Mr Wn wants closer contacts including further visits by US senators and congressmen. When they visit, he says, they "come to realise that we are not talking about buman rights on the moon or in a vacuum. We are talking about human rights on the earth."

S 1993 draws to a close, A China faces mounting challenges in its attempt to regain sovereignty over Hong Kong and Taiwan. Its negotiations with Britain

ahout Hong Kong's political development have gone badly, raising the possibility that the much sought after "smooth transition" in 1997 from British to Chinese rule will be unat-Across the straits on Taiwar the island's political social

development is leading it fur-

ther away from reunification with the mainland, in spite of growing economic relations which are pulling the two economies closer together. One of first tasks Mr Deng Xiaoping, Chins's senior leader, set himself on his return to power in late 1978 was to deal with these two problems which were left unre-

solved hy the communists'

assumption of power in 1949. China's revolution was strongly nationalistic in character. The British and Portuguese colonies of Hong Kong and Macao ware symbols of past humiliations by foreign powers. Their existance for most of the post-war period was tolerated because of the access they afforded China to the outside world in the aftermath of its enforced isolation

following the Korean War. Taiwan was a different matter. It housed the remnants of the Kuomingang (KMT, Nationalist) government which the communists had defeated in a civil war which raged in earnest from 1945 until 1949.

nomic interests. Both issues, bowever, came together under the rubric of

gang sprofits which are expec-ted (Greach Yn4-6bn (U\$807m) this year, compared with Yn299m in 1978, the year before the introduction of the responsibility system of profitsharing with the state. Steel-making would remain

the focus of Shougang's endeayours in spite of its diversification strategy, said Mr Pan. The company expected to lift production to 8.8m tonnes of steel by the end of 1994, up from

HONG KONG/TAIWAN

Challenges ahead

uniting the motherland." Mr Deng's solution to these two different problems, "one country, two systems," was propounded in 1979 and first applied to Hong Kong (and later Macao).

Today, Chinese government officials in charge of Hong Kong and Taiwanese affairs face very different problems. problems which reflect the relative strength in hoth areas. Those in charge of Hong Kong evince confidence in their ability to manage the col-

ony in the absence of agreement on Hong Kong's political development. They draw comfort from the enmeshing of Hong Kong's economy with China's and from the colony's aversion to confrontation with

HINA has said that if Hong Kong's political development proceeds without its consent then, come 1997, it will hold fresh elections for the 60-strong Legislative Council, the colony's law-making body. It has also threatened British aconomic interests in Hong Kong and on the mainland while at the same time promising to safeguard Hong Kong and Chinese eco-

In July, China aet up a "preparatory working committee" consisting of mainland officials and a selection of Hong Kong detailed advice to a "prepara-tory committee" – which comes into being in 1996 - on all aspects of Hong Kong's political, social and economic

Mr Lu Ping, director of the Hong Kong and Macao Affairs Office of the State Council (or cabinet), says: "If there is no agreement, which we do not want to see, Hong Kong will still go on and continue to be prosperous and an international financial centre ... Hong Kong will not collapse. For officials in charge of

Taiwan the situation is radically different. In spite of this year's thaw in relations, which saw an historic meeting of mainland and Taiwanese officials in Singapore in April, Beijing officials admit that Taiwan holds the cards in dictating the pace of contacts and eventual unification.

Mr Zhang Ming Qing, a senior official at the Office of Taiwan Affairs in the State Council, says: "I ahould not say that we have acquiesced in slowing down the talks [about reunification), hut there is nothing we can do. It largely depends on them [the Taiwanese government] whether they want to sit down and talk ☐ Regional trade issues: the

presence in Seattle of Mr Jiang

Zemin, China's president, for

this week's meeting of the Asia

A little over a decade ago China's trade with the members of the Association of South East Asian Nations (Asean) was \$800m; today it stands at more than \$8bn.

The combination of China's open door policy and the enthusiasm of the estimated 40m overseas Chinese - most of whom live in the region for mainland investments will help underwrite further rapid expansion of regional trade in the coming years.

China has sought strennously to build relations with other Asian countries in recent years.

._ Simon Holberton



the very least Russia is likely to need World Bank help if it is in the Ukraine, unable and

and deputy general manager of Electricité de France, told the

Mr Kemy Carle clean board fusls and other ractors the WANO governing board which the nuclear industry has little control.

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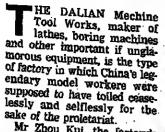
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world.



Mr Zhou Kui, the factory's director and Communist party secretary, now finds himself at the centre of a sensitive debate over the reform of state industry and the rights of workers to leave the state sector and take their skills to collectivelyrun or private companies.

Over the past year, the machine tool factory has lost. 71 of its employees, many of them managers and senior engineers, to a small company, Bohai Machinery Plant, established late last year on the fringe of Dalian, a northern

The case has received national coverage, with the departing workers asserting that "if you want to have a market economy, competition is inevitable "

However, Mr Zhou com-plained in a state newspaper that "they are digging at our wall publicly" and "some of our departments are half-

The remarks prompted letters from factory managers who either agreed with Mr Zhou or thought that he had to accept the defections as part of managing a factory in modern China. But the replies also highlighted the welfare burden faced by large state-owned factories, which run kindergartens, provide housing and bear most of the costs of keeping retired workers and their fami-

A tractor factory manager wrote to the Economic Daily complaining that his company.



Overseas interest: a delegation of Japanese businessmen inspect facilities in Dallan

Profile: Dalian Machine Tool Works

The market's burdens

had 40,000 workers, 100,000 relatives and 20,000 retirees, and we have to take care of everything - how they eat, drink, and sleep." His complaint was that this hurden left the factory at a disadvantage in the domestic and international

AVING haen sur-rounded by political controversy, Mr Zhou is now careful in his choice of words. He began talking about the resignations by emphasis-ing that he and the Dalian Machine Tool Works are committed to economic reform, and that the factory has imported new machinery in the state-approved quest for quality. But he also makes clear that

ourable history of serving the state, which he thinks should count for something even in the middle of reform: "We have won many awards for our prod-ucts since our founding in 1948. We have contributed to the growth of China's industry."

Mr Zhou did not directly criticise the senior staff who resigned, and made a point of mentioning that the exchange of talents was a natural result of the market economy, which suggests that he has been doing his duty as party secretary by taking note of the pro-reform editorials in the People's Daily.

However, he thinks that the exchange should be gradual, and not be allowed to damage tral government, and even in a developed market economy there should be some regulations. After the perfection of regulations, our development will become more orderly and reasonable," he sald. Mr Zhou is not the only fac-tory head to think that reform

and regulations from the cen-

has created disorder. The director of the Luoyang Copper Products Factory arote that be experienced "bitter and sour tastes" similar to those fell at the Dalian Machine Tool Works, and is unable to overhauf the factory, despite appreciating the need for change.

"Some people say that the state has invested a lot of money in our factory, and that we should be able to revitalise our operations, it's not that we don't want to do it or that we don't have ability. There is really nothing we can do. Wc are like a big elephant being eaten away by ants."

Robert Thomson I sive materiats factory had

LONG Tian Lin, a kilo-

metre-long stretch of

road in West Shanghai,

dozens of newly-huilt computer

shops are taking the plastic

wrappings off their signs and preparing to start business.

Managers of the electronics

factories along Tian Lin expect that within months it will be

packed with customers, who

will be able to walk away with

almost any kind of computer

eventually he Chinese-made.

But that will depend on a

Chinese science and technol-

olution, when many of the hest

were sent to work on the fields.

Though many were later reinstated, those who beld doctor-

ate degrees from western uni-

versities before the turmoil are

now mostly over 70 years old. The current scale of scien-

tific and technological research

is huge: some 5,000 research

institutes - generally separate from the universities - which

are directed and funded by the

Beijing-based Academy of Sci-

ence, industry, regional colleges and the military.

or component they want.

Anshan rescues Shenyang Steel

Loss-maker is given a new parent

UST inside the entrance to the Shenyang Steel Sheet Works, a banner congratulates employees on their becoming members of the Aoshao Steel family, which benevolently adopted a company that has consistently lost money for the past decade. Shenyang Steel is typical of northern China's ailiog manufacturers, slipping far behind the competition on quality but too poor to overbaul equipment installed in the 1950s

and, in this case, noable even to buy raw materials. The factory last year offi-cialty tost Yn12.66m, though the actual toss was double that amount, according to one manager. It has about Yn100m in outstanding toans from banks. 4,000 mostly idle workers and a potential output of 100,000 tonnes of steel, though last year it produced only 18,000

"We produced only for 75 days last year because we didn't bave enough materiats," exptains Mr Lu Zihe, bead of Shonyang Steet's business department. "We had no option but to be taken over by a company like Anshan. We have been trying to find a partner since 1991."

Mergers and takeovers are encouraged as an atternative to bankruptcy, stitt a touchy issue in Shenyang. In 1987, the city announced that an explo-

troversy surprised local officials and the city has not had another bankruptcy since

The idea of state-approved takeovers is that the stronger partoer, Anshan, the largest steel producer in northern China, will reform the management of the company and replace the outdated equipment. But, in the four months since agreement was reached, Anshan has not changed the senior management and the factory is still working well below capacity.

One cause of Shenyang Steel's woes was the government's decision to remove subsidies from material prices. which rose to levels that the company could not afford. As Mr Lu put it, before 1992, "thc state provided materials for us, but from last year the state stopped providing those materials," speeding its cotlapse.

"We are determined to learn advanced management skills from Anshan," Mr Lu says. But the managers at Shenyang do not expect that Anshan with want to control the company. and emphasise that they will be able to trade themselves ont of trouble, given a con-tinoing flow of money from

Another worker at the factory insisted that the "state still owns the factory," even

■ SCIENTIFIC RESEARCH

signed a contract making it responsible for profits and losses: "This is not like the system in the west - this is a socialist country and the state remains responsible for the assets and the workers."

Hts comments indicate the difficulty faced by the governmeot in handling workers fscing dismissal at loss-making companies. The arrival of Anshan is seen by workers as the state acting, in another form, to ensure that Shenyang Steel continues to operate regardless of its lack of profit ability.

Mr Lu said his company is trying a few new tactics in the quest for profits. It is attemptwaste steel materials rusting outside the main workshop, and is about to open s botol, a popular but not necessarily profitable diversification by Chinese manufacturers.

"We are doing our best to avoid cutting the staff. We have changed the working system by putting employees into smaller units and we plan to open service businesses," says Mr Lu, "In the past, the government assigned people to the factory and we are still responsible for looking after them. We run a kindergarten and perform other government functions, so we should get

Robert Thomson

HE UNPACKED hoxes with bright red General Motors markings stacked around a Shenyang factory tell of the difficulties facing the US vehicle maker in its joint venture in the northern Chinese industrial city, writes Robert Thomson.

Each box contains part of a pick-up truck, but the assemhly line has stalled along with sales, and GM's partner, the finbel (Gold Cup) Automotive Company, complains that the model is unsultable for Chinese conditions and that the price of Yn180,000 is beyond the means of most work units:

Mr Zhang Defa, vice director of Jinbel, said the joint venture has only put together 300 of 580 pick-up kits imported in the past year, while existing production lines are still churning out Jinbel's standard commercial van. He suggests that the been to either partner's taste. "There is no market for the

GM truck. Chinese consumers are not very accustomed to this kind of two-seater vehicle and it is very difficult to sell.
"We are now negotiating with them to build a four-sea-

ter vehicle which would be better suited for China," Mr Zhang says. Dealing with Jinbei has not been easy for GM or for Toyota Motor, which has a technical tie-up for minibus production with the Shenyang company, which is eager to boast that it .

the minibus market. Jinbel's close links to the Shenyang government make it difficult for partners to resolve disputes locally, hut Volkswagen found in its venture in larger, less provincial, signed: "The Chinese side bet liself was not listed, though support from government support fro

is the 37th largest enterprise in

China and has 40 per cent of



All crated up and going nowhere tast: GM joint venture materials

Troubled joint ventures

Bumpy road for car groups

officials who owed no personal loyalty to its partner.

Mr Zhang suggests that operations.

The Japanese company dis-

loyalty to its partner.

Mr Zhang suggests that negotiations for a production joint venture with Toyota are in the final phase: "It is very good to have technical co-operation, but we would liks them to make an investment and be involved in the design of the car."

Toyota, the Japanese car maker, insists that there are many areas of disagreement and a contract is far from

covered that the Hong Konghased Brilliance group, through which Toyota has the tachnical tie-up with Jinhei, established a Bermuda-registared company, Brilliance China Antomotive Holdings. This became the first Chinese mainland company, via Ber-muda, to be listed on the New York exchange late last year.

According to Mr Zhang, Jin-

Kong-based Brilliance Toyota says that it was not told of the listing until after the event: "Our name was used in some of the publicity materi-

state-owned companies, which

enjoyed by their smaller com-

petitors: "We are trying to

make the transition to the mar-

ket, but it is not easy because

we bave been part of a planned

economy for a long time, and

must deal with overstaffing

Mr Zhon is unable, for exam-

the factory's 6,500 workers

ple, to dismiss a few hundred

without government approval and without the danger of

impoverishing those employ-

ees, as Beijing has yet to put a

social safety net in place. He

sees these changes taking a

long time, and implies that

state-owned companies need

"We still have some planning

assistance in the meantime.

and other difficult issues."

als, but we didn't know.
"The Brilliance issue does not affect the ownership of Jinbei," Mr Zhang says.

"I have no idea what the share price is now. I know that the share price went up on the first day of listing, but that is all I know because we have no reason to watch the price." However, the vehicle mak-

er's own brochure talks of the "Brilliance-Jinbei" listing, and has a photograph of Jinbei officials in the company of Mr Jiang Zemin, the Communist party general secretary, who is supposed to have sald that "Jinhel has connected the finance line with the US and

At the time of the listing, the ented with a painting depicting "a hundred hirds worshipping the phoenix," which, Jinbel explains, symbolised the hun-dreds of state-owned Chinese companies flying toward the US stock market for a listing. But the listing stirred opposi-tion in Beijing where some Communist party officials were furious that the Shenyang company and its charismatic

chairman, Mr Zhao Xiyou, had Toyota is still angry, and wonders whether its future in China should he tied to a a company with an erratic man-

agement record.

The Japanese maker is also yet to solve the issues that haunt most joint venture negotiations, including the value of existing assets that Jinbei sees as its contribution to the project, and the composition of the workforce, as well as the role of the imported management. Trying to bridge the gap However Professor Zhu Lilan, a polymer chemist who is vice minister of the State Science and Technology Commission, estimates that Chinese scientific research, while strong in some subjects, is still a decada behind the cutting edge of world science, in some areas, such as communications and nuclear science, China has beeo able to take advantage of

an overlap between military and civil inlerests. The Chinese government hopes that many of the goods in streets like Tian Lin will But according to western diplomats, "a shortage of money to buy equipment has been a handicap in the natural sciences (physics, chemistry, transformation taking place in hlologyl, while the social sciences still look stunted - they ogy - one of the government's don't yet have enough autonpriorities since opening up the omy [from state ideology]".

economy.

The central questions are HE technological stanhow much that transformation dards of Chinese-made goods have also been will depend on importing techlow. The evidence is visible in any department store: most nology, and whether China can develop a vigorous research base of its own. electrical and electronic goods Chinese science lost a generation of scientists and technicians during the Cultural Rev-

are imported. Even those which are Chinese-made often use imported components where reliability is needed -Chinese refrigerators use Yugoslav parts.

To bridge the gap, the government has been sending science students abroad to study - although half do not return, according to the science minis-

Prof Zhu takes a benevolent view of this: "The world is becoming more open - a global village. You cannot say any more who can go where, but it does not matter for science where scientists work."

She adds that "the important thing is to create better condihons here so that they return". In western diplomats' eyes, however, "there is some debate whether it has been a conscious part of government poltcy to let them go because the country has not up to now been able to absorb them".

China's attempts to improve its science are focusing on areas which might yield commercial applications. However, researchers' "lack of under-standing of the market" is a formidable obstacle, admits a ministry official.

One response has been to collaborate with foreign scientific research institutes, particularly in the US, and with for eign investors, especially in

electronics and telecommuni-

The electronics ministry, which estimates that the sector is now 5 per cent of industrial output, believes that some \$3bn has been invested in joint ventures.

To encourage investment, the Chinese government has begun to pay attention to the question of protection for copyright and intellectual property. IBM, the computer giant, among many other companies. has cited this as a considerable concern, although Beijing ministries insist that legal redress for such theft is possible.

Meauwhile, as China grapples with these problems, there is little doubt of the thirst for technological products.

Beljing's largest bookstore in the Wangfujing shopping district, is evidence alone; one of the fastest-selling technology hooks is a manual on Microsoft Windows, the US-designed personal computer software that has won worldwide popularity. It may, though, he many years before Chinese companies mount a challenge.

Bronwen Maddox

CAR PRODUCTION

More joint ventures are sought

HEN a delegation of Japanese car 240 per cent and 300 per cent should be lowered. Beljing earlier this month to pay their respects to a fast-growing market, they were well briefed about tha difference between the alluring statistics and the hard-won opportunities of China.
For the past decads,

Japanese makers have been generally content with technical tie-ups and exports, not risking much of their own money or prestige in the joint ventures preferred by international competitors such as Volkswagen, which has two large projects, and Citrõen. "Chinese officials always tell

us that we must pay a premium for being late to the market. They say that Volkswagen took a risk and has been rewarded - and that we should pay extra for starting up now," e Japanese company representative

the Chinese government warned the Japanese delegation about not missing out on a share of the world's fastest-growing car niarket, the government itself is divided over the development of the industry, and over the pace at which a narket, the government itself is divided over the development of the industry.

China's leading car companies are courting joint venture projects, even though Chair-man Mao Zedong is reputed to have said: "At last I'm stiting in a car mede by Chinese" when the Number One Motor Vehicle Plant in Changchun hegan producing East Wind

In the meantime, Chinese makers have slipped far behind their competitors in technology and quality. Economic reform has stimulated demand for new vehicles and has highlighted the deficiencies of the local product and producers, which are among the most politicallyinfluential of the country's

One sign of that influence and of concern about the use of foreign exchange, is the unpublicised understanding within the government that imported vehicles should account for only 10 per cent of total sales. The government had aimed for e 28 per cent increase in local production to around 900,000 vehicles this year, and wanted to keep imports to between

level is likely to be between 90,000 and 100,000, and will at least be 80,000 vehicles," a Chinese government report predicts. However, the report also reflects concerns that China's desired admission to the Gen-eral Agreement on Tariffs and Trade will create extra pressure to open the market

But, as in so many indus-tries, the official Chinese figures tell only part of the auto-motivs story. They grossly

China's admission to **GATT** will create extra pressure to open the market

underestimate the level of imports, as Japanese companies exported 96,953 vehicles to China last year, up from 20,673 in 1990, and not including those shipped through Hong

Kong.

The Communist party's discipline inspection committee is apparently investigating illegal imports of South Korean cars through Shandoug province, in the east. Imports of used Japa-

Korean organisers.
To cool the car market, Mr Zhu Rougji, the vice premier, suspended purchases by government offices, which has slowed the flow of exports from Japan. Production in the first half was running at 45 per cent ahove last year's level, hut the China National Automotive Industry Corporation said production and sales fell by just over 10 per cent in August,

compared to a month earlier. One reason for the low expectations of the Japanese delegation, sponsored by the Ministry of International Trade and Industry in Tokyo, are recent hints from senior Chinese automotive officials that government does not expectto approve another large-scale joint venture until

Chinese officials have suggested that three large ventures, the two Volkswagen projects and that of Citroen, will cover demand for cars. It is also argued that three commercial vehicle and light truck plants, including Beijing Jeep. and two mini-vehicle projects, involving Suzuki Motor and

nese official said Volkswagen dominates car production and another venture, either US or Japanese, would provide a better balance of makers. A government report also draws ence of US makers in the market, and the political value of increasing imports of US vehicles or approving another joint venture.

Jinbei Automotive Company in Shenyang, in the oorth, is still looking for a joint venture partner, and bas been negotiating with Toyota. Mr Zbang Defs, Jinbei's vice director, said that China "cannot rely on car imports" to satisfy demand, but "we can't meet the technological and capital requirements ourselves."

While the leading Japanese makers have been reluctant to commit themselves to China, the yen's appreciation this year has encouraged car parts makers to consider investment, partly to link up with ventures in which friendly companies. such as Nisson, have a small stake, but also with a longerterm aim of using the country as a base for components exports to Japan.

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BEIJING - BRUSSELS - HONG KONG - LONDON - LOS ANGELES - MOSCOW - SINGAPORE - TOKYO MEMBER OF THE DENTON INTERNATIONAL GROUP OF LAW FIRMS

An upheaval is under way in China's rural heartland. Here and on the facing page, FT writers report on agriculture, labour, environmental, housing, labour and population issues



Many farm workers migrate to the cities, reports Bronwen Maddox

New tensions emerge

N upheaval is under farmers in the 1950s and 1960s way in China's rural sharply reduced agricultural heartland where 900m yields, and output barely kept people - three-quarters of the population - still live. Millions are starting to move to the cities, marking one of the higgest population shifts in China's history.

The migration has presented Beijing officials with an alarming vision of the social transformation set in train by their

Tha huddles of people camped in Beijing's railway station testify to the scale of the changes. Mr Du Wen Bet, 19, from a farming family in the south-west, has crossed the width of China with his friends to find work on the construction sites of the north-east. Jobs are easy to find up

there, but there are no jobs at homa at all," he says. The current problems in agriculture partly stem from es of the past 15 years of liberalisation. The

commune system imposed on

yields, and output barely kept pace with the fast-growing population. However, after 1979, peasant

households were allocated their own plots of land under contract. After fulfilling local quotas, they were allowed to sell the surplus in the markets that began to emerge. In the past two years, the

government has also lifted state controls on most agricultural prices, and by the middle of this year, controls on grain and other food prices had disappeared in most parts of the country, the International Monetary Fund reports.

The surge in agricultural output since 1979 was one of the first clear successes of the liberalisation programme and has given the government confidence to reform the industrial

But new tensions have emerged. The leap In agricultural productivity coincided with a steady rise in China's population, and Beijing ministries estimate that at least 130m of the total 333m agricultural labour force are now sur-

plus to needs. On some ministry estimates, this figure could reach 200m by the end of the decade.

Hence the migration - many of those people are now leaving

Today's migration from the rural heartland is one of the biggest population shifts in China's history

their home provinces to look

for work on construction sites or as maids, enticed by stories of bright lights and big cities. Discontent is also rising among those still on the farms. Although the rural standard of living has risen in the past decade, the gap between rural and town incomes has widened: official figures say that per capita income for peasants in the cities.

In the past two years, farmers have seen their incomes squeezed by a fall in prices for grains, while the costs of fuel, water, pesticides and fertilisers have risen steeply.

Their grievaoces were inflamed further in the spring when local banks failed to honour government IOUs for grain One western diplomat says:

"The problem arose partly because many local officials still regard peasants as serfs and don't take their needs seri-Although the central government gives the provinces money to buy the grain, many regions used their growing

independence from Beijing to invest the money in real estate - they then lacked enough money to pay farmers. Provincial independence, combined with farmers' preference for growing only the most

profitable vegetables, has

given Beijing a further beadache: production of some of the most important crops has become volatile.

CHINA 10

Following a disastrous cot-ton crop last year, production levels are expected to slump, even though China relies heavily on cotton productioo for textile exports.

Tensions came to a head in Henan and Sichuan provinces in May and June when peasants, suraged by layers of taxes imposed on them, rioted and attacked local government officials.

Beijing ministries were clearly rattled: "The riots and the migration have told them that they are losing social control," says one western

The government has wisided a range of tools to pacify the farmers and stabilise output of the main crops.

It has ordered local banks to pay farmers promptly for the autumn harvest - the next few months will show whether this has been heeded. It has also continued to raise the price it pays farmers for some crops. and tried to establish a minimum price for the main grains.

Further rises are in the pipe-line, the agriculture ministry says, although the government's room for manoeuvre may be limited as the price of soya bean, cotton and corn is already close to world market prices. Beijing has also tried to put a ceiling on fertiliser costs. and is compensating farmera

for some of the increases.

According to the ministry of agriculture, the government is reconciled to maintaining these subsidies as the price of peace. Mr Xu Haifiang, division chief of its international divi-

sion, and Mr Liu Zhenwei, deputy director of its central administration, says: "In tha past, the government used to pay a lot of subsidies for con-

located to farmers. Meanwhile, Beijing is taking staps to control migration directly. In the past few months thousands who were camped indefinitely at Beiling railwsy station have been dis-

sumers and for factories. Now these subsidies are being real-

patched home. During the rest of the decade, Beijing hopes that

mushrooming rural husinesses will soak up 50m of surplus rural labour. The government also plans to create 12,000 new small towns to absorb a further 20m, the agriculture ministry says.

Beijing officials and western diplomats agree that China is not about to run short of food. Transportation problems may mean some regions find some foods hard to obtain but "there is no shortage of farmers, no fallow land and no crisis of falling yields," says one westBut Beijing will eventually be confronted by the social consequences of the changes it has set rolling, and by a diffi-

cult conundrum. Continuing to cushion the farmers from price liberalisation is expensive; removing the protection risks further loss of control; reversing the reforms jeopardises the past decade's

In the agriculture ministry's wurds, the government's recent measures "will alleviate not solve them.

Shortages are made worse by the NE OF the best tests of whether China can get pollution of rivers and water tables to grips with pollution will be its success in improv ing supplies of clean water. At the moment, the cities, industry and agriculture are tussiing nver an increasingly scarce resource

Tlanjio, located 100km sooth-east from Beijing, has recently seen part of its water supply diverted to Beijing. after a new reservoir was built

It is now rapidly approaching a ceiling: it uses 90 per cent of the remaining water and demand is still rising. Tlanjio's Eoviroomeotal Protectioo Burean acknowl-

edges the dangers that water

shortage poses to its regional

A tussle over

water supplies

development, but the solution building more reservoirs - is

expensive Eoviroomental Protectioo Ageocy (NEPA) and the World

Reports by China's National

metres of land bave subsided aroood Beljio and Tianjin because of over-extraction of groundwater. Overall, subsidence bas been

detected in 45 large and medi-Bank show that the maio um-sized cities. cities frequently extract too The shortages are exacerbated by polintion of rivers Thousands of square kiloand water tables. Much of the

country's liquid and solid waste ends up eventually in one of the seven main river

The pollntion is rapidly cutting fishery yields. Annual breeding of the fonr main fishes in the Yangtze river declined from 20ho in the 1970s to the present 1hn, according to NEPA reports. Meanwhile, poor drainage

and accumulation of salt has cut yields on nearly 7m hectares of irrigated cropland,

sometimes by 25 per cent, the World Bank study found. Around 1.4m hectares are Irrigated by polluted water, leaving poisonous heavy metals in the crops.

Bronwen Maddox



Pictured here are children in the crowded city of Changqing in Sichuan Province. China's new fertility rate is now nearly as low as that of wester Europe and the US. Much foreign criticism has centred on press reports of compulsory abortion and starilisation in China

Experts search for reasons for a dip in the fertility rates

The population puzzle

HANGHAI'S population bas stopped growing because the birth rate has fallen so low, according to China's ministry of family planning. That claim does not take account of peasants flocking to the city's construction sites or the sprawl of the new suburbs. But if true, it reflects the success of China's population programme, one of the most ambitious and internationally controversial aspects

of its policy. For nearly two decades, China has been trying to curb the growth of its population in order to raise living standards and restrain pressure oo scarce resources. Latest government figures put the total at 1.17bn: China now has a nearly quarter of the world's populatioo on around seven per cent of

the world's arable land. Estimates of the future population are staggering. The United Nations' central projection is that by 2050, the total

could reach 1.52bn. But tiny changes in assumptions about family size produce a wide range: from as little as 1.23bo io 2050 up to so astounding 1.9ho in 2050 (and 2.4bn in 2150), although demographers regard the highest figThe core of China's policy is

to limit couples to one child, mainly through financial incentives. In Beijing, couples pay 10 per cent of their income for a second child and a further 15 per cent for a third. In practice, they may also lose promotioo, housing and other The programme bas also

aggressively promoted contraception, principally intra-uter-

It is clear that the policy has had a dramatic effect. According to government figures this year, the fertility rate - the average number of children per woman implied by current around 1.9 from 2.25 in 1990. That is nearly as low as western European and US rates. and less than balf that of India.

The reasons for the fall have

contraceptives," says the min-

Despite a fall in fertility levels, estimates of the future population of China are staggering. By the year 2050, the total population could reach 1.52bn.

ine devices, sterilisation, condoms and pllls. Abortion is also widely available; the ministry reports one abortion for every two live births.

Much foreign criticism has ceotred oo press reports of compulsory abortion and sterilisation. Beijing has generally called these reports exaggerated, but the family planning ministry acknowledges that some local officials may be loadequately trained "around 60 per ceot of staff at township level left school at around 15 years old - they do

puzzled population experts. given the partial relaxation of the one-child policy in the mid-1980s - "we were certainly surprised when the figures came through," says Mr Carl Hauh, a demographer with the Population Refereoce Bureau, an independent Washington-based research organisation. Some analysts speculate on an

policy; others question whether the fall is sustainable. The headline figures also hides other concerns. The policy has been more effective in not have enough knowledge of the cities than in the rural

unpublicised toughening of

areas, where three quarters of people live, and where the average number of children per family is still 2.6.

"The countryside is still a problem - they work with their hands and believe that they need more hands," officials say. The policy also appears to have encouraged a baby boys, traditionally preferred to girls in China. Ultrasound machines - which can detect the sex of the foetus are now widespread, although abortion on those grounds is officially discouraged.

According to the family olanning ministry, in Zhejiang province in the Yangtze Delta. the proportion of boys to girls has reached 118 to 100 compared to the normal 104.

Demographers stress that given these tensions, and the scale of social change oow under way in China, particurlarly growing affluence and migration to the cities, the future is highly uncertain.

In Mr Haub's words: "Who knows what China will look like in 30 years time? The range of prospects for its population is ecormous.

Over 130m farm workers now "surplus to requirements"

Poverty and employment in the last

Migrant labour moves to cities

UDDLED io tightly packed groups around the railway stations of China's urban centres, peasant workers from the countryside wait listlessly for offers of work from city dwellers.

Government officials say that about 30m of China's 697m population of working age are employed outside their home provinces, and that about half are skilled manual workers, oftee in construction. But the World Bank estimates that this "floatiog populatioo" may number as many as 120m.

In Guangzhou city alone, at the heart of the flourishing Guangdong province, officials estimate that about half a millioo of the city's 3m workforce are migrants - "it is hard to get good statistics for illegal migrants into our city," says Mr Fu Yin, division chief in mission. "But it is unavoidable, and the figure will increase He expects the oumber of migrants without work permits have risen to 900,000 hy the end of the decade.

Traditionally, the Chinese state has assigned jobs for life to its citizens, with housing, health and welfare beoefits attached. Citizens received the benefit of this guaranteed living standard or "iron rice bowl." Meanwhile, the Communist Party was able to keep s close eye on the behaviour of its subjects.

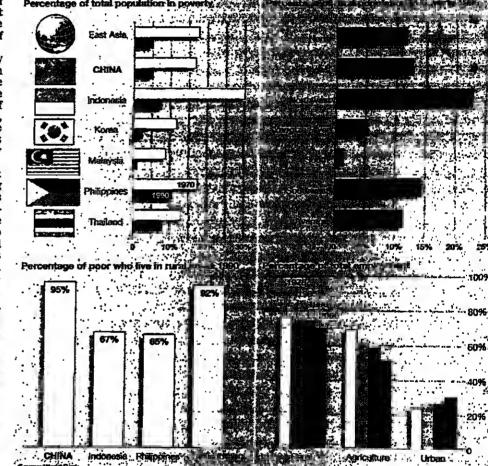
As economic development has accelerated, government officials have become aware that this highly immobile and inflexible lahour system is

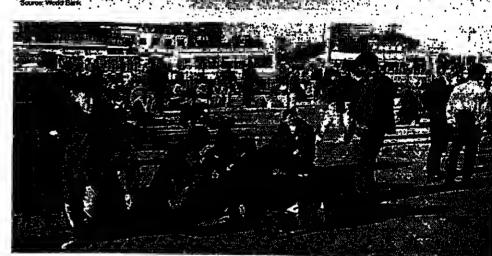
hampering reforms. in 1986, a labour contract system was introduced for all newly recruited workers in the state sector, although by the end of last year only 16m (21 per cent) of total state enterprise employees had such con-tracts. The government is currently planning further labour market reforms, requiring all state employees to sign con-tracts. Unprofitable state enterprises were prevented over the summer from paying wage

bonuses to their workers. Meanwhile, the state plans to remove from state enterprises the responsibility for provision of welfare, pensions and housing. Experiments are under way to allow housing agencies to buy housing stock from state enterprises, and then gradually to increase rents over time. The government has established an unemployment insurance system and is investigating a national retirement

"Our ultimate objective is to create an active labour market so that enterprises can freely choose their workers, and in which labour is more mobile." says Mr Zhu, vice labour minister. Yet the government remains cautious about the implications for "social stability" of asking enterprises to shed surplus workers, let alone forciog unprofitable eoterprises to go bankrupt. Official unemployment in urban areas is below 3 per cent, but governmeet officials estimate that about 10 per cent of workers in state enterprises are under-employed, whila a third of enterprises are unprofitable.

"We cannot allow many Bronwen Maddox | enterprises to go bankrupt





A floating population in search of the good life: above, more migrant workers arrive in Be sijing from rural areas - 95 per cent of China's 100m poor pe

because our society does not have the capacity to absorb these surplus workers," says eral of the State Planning Commission. "With unemployment at 2 per cent, our society is stable. But if unemployment rises above 5 per cent we will have social unrest."

As the importance of state enterprises has dwindled, so the grip of the state on the activities of its population has also been weakened. Less than half of China's non-agricultural workforce now works in state eoterprises, with a growing number working in foreignfunded enterprises often at five times the wage of their state compatriots. Meanwhile, the proportion of workers employed in Township and Village Eoterprises (TVEs) rose from 7 per cent in 1980 to 16 per cent in 1990. These workers account for 40 per cent of nonagricultural employment.

One reason for the growth of this floating population is the accumulating surplus of farm labour owing to population growth and technological change. The labour ministry estimates that 130m of the total 333m agricultural labour force is now surplus to requirements, and estimates that this figure could reach 200m by the end of the decade. The World Bank estimates that, while urban employment should grow by 2.8 per cent a year, agricultural employment will

stay constant.

Another reason is the growiog inequality of lincome between the richer coastal urban areas and poorer rural provinces. According to World Bank figures, the percentage of the population which now lives in poverty has fallen dramatically from 33 per cent in 1970 to 9 per cent in 1990. But poverty is highly concentrated in the countryside: 95 per cent of China's 100m poor live in rural areas.

In many rural areas, the growth of rural industry has played an increasingly important role in alleviating poverty,

a policy that the government now plans to encourage. But there is also substantial regional variation in poverty incidence, as the chart shows, while rural industry is much more prevalent in the richer regions. More than a quarter of the rural populatino in the sonthern provioces is employed in rural industry. compared to a mere 3.9 per cent in north-western Gansu province where a third of the

rural population is poor. The government plans to encourage the growth of new urban areas in the poorer provinces by persuading enter-prises and foreign investors to move to less developed areas. "Our policy is that farmers can leave the land, but not the countryside," says Mr Zho of the labour ministry. But, as the floating population already shows, the development of China's labour market. like its economy, is not always under



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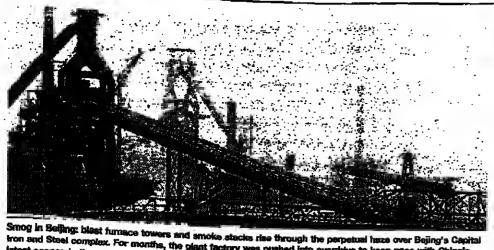
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Long-term

January,

university



ron and Steel complex. For months, the giant factory was pushed into overdrive to keep pace with China's latest economic thrust. See industrial report, page eight

It will get worse

BICYCLES have been ban-ned from the Bund, the highway along Shanghai's colonial waterfront, so that cars can move more easily. The image of hordes of Chinese making their way to work on bicycles is giving way to that of day-long traffic jams, which pump out a choking smog into the city air.

That is just one symbol of the pressures which China'e economic development is putting on its environment. In the past, environmental concerns have been low among China's priorities. But in the past year Chinese officials and the World Bank have both warned that pollution needs to be curbed urgently because it threatens future economic growth.

Shortages of clean water have already cut agricultural yields on millions of hectares of cropland and are pushing up manufacturing costs. Environmental diseases are a growing burden on public health programmes; lung disease, partly blamed on air pollution, was the leading cause of death in . China in recent years at 26 per cent of all deaths.

Government statistics, though incomplete, indicate that Chinese cities are among the dirtiest in the world. More than two-thirds of household and industrial waste water is dumped untreated into rivers, lakes and the sea. In Beijing, where only 2 per cent of housebold waste is treated, the eastern suburbs reek of sewage, while Guangzhou's canals bubble with methane from rotting.

In northern industrial cities, levels of particles in the air, which cause breathing problems, are up to nine times. bigher than World Health World Bank reported last year. In rural areas, only one in seven people has clean drink-

ing water. These problems, while common to industrialising countries, have been exacerbated by the route that China has taken to development. The sharp rise in its population to the present total of 1.2bn followed Mao's endorsement of large families between 1950 and 1965. The economy is only gradually turning away from highly-polluting beavy industry, still nearly half of industrial out-

Moreover, the low energy prices set by the state have left Chinese industry inefficient. Consumption of energy per unit of output is high even by developing country standards, according to the World Bank. Coal, the single biggest culprit behind China's air pollution. still supplies three-quarters of

the country's energy.

The Chinese government has made some attempts to curb pollution during the past 15 years. It is hard to think of another developing country with e comparable array of environmental regulations, permits, and levies et both

national and local level. Professor Ye Rugiu, of China'e National Environmental Protection Agency, claims that these schemes have been at least partly effective: pollution per unit of output has not increased since 1978, in a

Government statistics indicate that Chinese cities are among the dirtiest in the world. In Beijing, the eastern suburbs reek of sewage

period when GNP has grown

by some 160 per cent, he says. But the schemes attract scepticism among some Chinese intellectuals and western observers. They point out that the central government's bud-get for fighting pollution is tiny: only Y11.8bn last year. They are doubtful that without more funds, the government's current campaign to shame polluters into cleaning up will be effective: (In the summer it published a list of China's 3,000 forst polluting factories, and last month launched a nationwide nightly television programme to celebrate triumphs of pollution control.)

Perhaps the greatest problem is that regional and district governments often fail to enforce Beijing's policy. In the view of one western diplomat: "I think they (the central government are sincere. The problem In China has always been the disconnection between the provinces and the centre."

For a start, fines are generally too low to be effective in deterring pollution or encouraging investment in cleaner technology. In Tianjin, a fastgrowing industrial city 100km south east of Beijing, the district government can impose fines of only Y50,000 on factories, and the municipal government fines only up to Y100,000. Mr Liu Jin Sheng, senior engineer with the city's environ-ment protection burean, acknowledges that "the fines are low and need revision". But local officials cannot raise the fines without authorisation

However, tongher penalties might jeopardise economic growth and jobs. Faced with that choice, both central and provincial officials tend to choose growth and jobs. That eference is reflected in the lack of environmental controls exerted over the mushrooming township and village enter-

Often using outdated, inefficient technology, their sprawling sheds and belching chimscenery of the Chinese countryside. Yet they underpin much of the new provincial prosperity, and also have a central role in state plans for soaking np surplus rural labour and discouraging peasants from migrating to the

Given the shortcomings of China's present system of pol-lution control, the immediate prospect is that much of China will get dirtier as the economy grows. Informal government estimates suggest that China will burn L4bn tonnes of coal by 2000, a 40 per cent rise on

However, structural changes under way in the economy could bring about longer-term environmental improvements. If the attempts to free resource prices are carried through, particularly in the case of coal, industrial efficiency may rise. Development of hydroelec-

tric and nuclear power will also help, although it brings other problems: China's "Three Gorges" project to dam the upper Yangtze river has attracted international criticism: for the ecological and social disruption it will cause. Decentralisation may also give the provinces more responsibil-

Chinese officials acknowledge that foreign funding and technology increase the chances of this transformation.

In securing funds, China may be able to capitalise on international concern about global warming. It made clear at last year's Rio Earth Summit that if developed countries wanted it to curb emissions from coal burning, they would have to provide the cash.

But until these structural

changes take place, it is hard to see China becoming cleaner As Professor Ye puts it: "We must simply try to slow down the rate of increase of pollntion as China develops - but we cannot stop the development."

Bronwen Maddox | Eyes down for action: Shenghai's financial swap centre

Financial Segues

Significant reforms are continuing in China's banking and finance sectors. Here, and on the next page, Simon Holberton and Edward Balls highlight recent developments



Rush hour at Shanghai's Securities Exchange

Edward Balls looks at progress on banking reforms

Still a long way to go

■ HE appointment last July of Mr Zhu Rongji, nalled the government's inten-

financial sector.
But despite considerable strengthening of the central bank's power since the summer, there is a long way to go before China has a viable and competitive banking system.

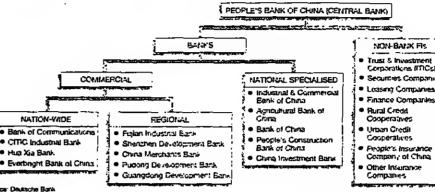
Over 14 years of reform, dramatic changes have occurred. Originally little more than a means of directing credits to state enterprises according to the central credit plan, China's banking system has become an increasingly important source of funds for enterprises and a means of recycling the large pool of domestic savings.

In 1984, the People's Bank of China hecame the central bank, with its commercial activities transferred to a newly created bank, the Industrial and Commercial Bank of China, Meanwhile, the other three state banks were encouraged to expand outside their traditional areas - agriculture, construction and trade finance.

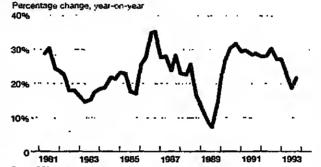
The big four still dominate the banking system, but since the mid-1980s there has been an explosion in the number of non-bank financial institutions engaged in domestic currency lending, direct investment and trust business. Meanwhile, the government

has increased the number of banking licences granted to foreign banks. Although still prevented from engaging in domestic business, they have made a significant dent in the trade finance market. One western banker estimates that Shanghai's 26 foreign bank branches have won more than 25 per cent of that market. Yet as the banking sector

China's financial institutions (Fis



Total bank deposit growth



bas become more sopbisticated, flaws in the system have become more obvious. Proh lems exist in the following

 Non-commercial lending. The state banks remain obliged to lend to state enterprises, regardless of commercial crite ria, so the government bas been obliged to keep tight control on competition in the banking sector and on the Up to 40 per cent of the banks' loans to state enterprises are believed to be nonperforming, although the Bank of China prefers to describe them as "overdue"

This lack of competition effectively prevents the central bank from using indirect instruments of monetary pollcy such as changes in reserve requirements to control credit. • Under-regulation, Another result of the lack of permitted competition for deposits by the banks, combined with lax regulation by the PBC, has been a mushrooming of illegal lending to non-bank financial institutions who then on-lend at much higher interest rates.

NON-BARK FIS

Trust & Investment Corporations (FRCs)

Finance Companies

Rural Credit Cooperatives

Urban Credit Cooperatives

People's Insurance Company of China

One western banker estimates that, as a result of the crisis in the real estate sector. as much as 90 per cent of this bank to non-bank lending may now be irrecoverable.

Much of this lending occurs outside the published credit plan, and is mysteriously recorded in the government's monetary survey as "other items, net". Last year, net domestic assets grew by 32.7 per cent - 10 percentage points faster than allowed for in the credit plan. Lax regulation bas led to a series of financial scandals and frauds involving nonbank institutions

in March of this year, the PBC issued a circular which tightened access to the interbank market to keep nonbanks out, probibited real estate lending, and shortened maturities on interbank lending, although the decree was not enforced until July Mr Zhu took over.

 Decentralisation. The gov ernment tries to use the PBC hranch network to drain surplus deposits from the relatively few. normally ricber, surplus provinces to redirect them to those in which the growth of deposits lags behind credit demand. But it has faced growing pressure from PBC branches, often with close ties to local governments, which bave sought to make changes to the credit plan.

"Each province has a head branch of the People's Bank," explains Mr Lu Baifu, vice-director of the State Council's development research centre. But, he says, the hank has been losing control of its provincial branches. "The PBC cannot use it the provincial hranch) to adjust monetary policy. It has become a hindrance to the activities of the central bank.

Mr Zhu's first priority has been to re-establish control over the regional PBC branch network and to assert the PBC's independence.

"In the new financial system, the main objective of the central benk is to stabilise the value of the currency," says Mr Qin Chijiang, director of the PBC's Monetary Research institute. "At the moment, the PBC has only limited power to change interest rates, but our reform direction is to increase it gradually,"

Next year, according to Mr Qin, the government intends to establish three policy-oriented banks which will take over the non-commercial activities of the state banks, thus allowing choose their customers and set realistic lending rates.

Meanwhile, the PBC is trying to build a national interbank market, improve the bank's asset and liability management and strengthen its own supervisory capabilities. Yet, as one western banker

in Beijing points out, "the big question is not how to reform their loss-making customers. Foreign observers doubt wbether the government will be able quickly to free the state banks from their obligations to lend to state enterprises. "The government has got to

make it clear to the commercial banks that it is not their duty to lend to loss-making state enterprises," says an international financial official. That means impressing on ers that they must make state enterprises profitable."

Profile: Shanghai International Securities Company

Seeker of excellence

ODERN China is the land of the stop writes Simon Holber-

Deng Xiaoping, China's seninr leader, is famous for his seek truth from facts". The Shangbai International Securities Company (SISCO) hopes to he famons by putting into prectice management gurn Tom Peters' slogan "in search of excellence".

SISCO is one of the largest securities companies in China and dominetes the market in Shanghai.

Owned by e clutch of pension funds and industrial companies, it produces about half of all the new issues coming to the Shanghai market end is responsible, It claims, for more than 10 per cent of the market's daily turnover.

The company bas also expanded into Bong Kong where it, and its mainland partners, control two listed

Says Mr Xn Qing Xiong, the company's chairman: "SISCO is two years older than the stock exchange. At first we were dealers in government securities but with the listing of shares our business shifted to the trading of stocks. As the Shanghai exchange has expanded onr company has devel-oped very quickly." Indeed it has. The compa-

ny's fifth birthday, in Mey this year, was e time for celebration. In the 1992 calendar year, SISCO's balance sheet ~ according to mainland accounting standards - had mnre than quadrupled to Yn2.5bn from Yn600m at the

compared with Yn12.bn This growth has funded SIS-CO's expansion throughout Chine and Hong Kong. The company now employs 1,000 and it bas 17 hranches in

end of the previous year. Prof-

Shanghai, 20 branches in other cities ecross China and further

16 egents. It is waiting for approval to set up another 13

Hong Kong has also become an important base of the company. Mr Xn spent five years in the colony and knows it well. SISCO teamed np with local tycoon Mr Li Ka-shing to ecquire Public Internetional (snbsequently renamed First Shanghai) earlier this year.

It has also bought control of Ong Holdings which it bas renamed Shanghai Hong Kong International Securities and will concentrate on securities dealing. Mr Xu seys it is important to develop SISCO's business in Hong Kong as well as Shanghai.

In Chine's hifurcated securities market - where mainland investors can only trade A sbares and foreign investors only trade B shares - a presence in Hong Kong enables SISCO to participate in both markets, be says.

HOUSING REFORM

Homeowner Mr Li feels very secure

AVING crammed three generations into his recently purchased Yantai apartment, Li Xitian has combined the traditional Chinese family arrangement with the modern Communist party dream of owning your own A party member at a Yantai

an example for his fellow workers, most of whom are yet to be convinced to swap a minimal monthly rent for bousing loan repayments and the uncertain legal protection offered by the Yantai municipal government. "I feel very secure. I really feel that I own the apartment and will be able to pass it on to my son and grandson," said Mr i, who would not have bought

it had he only been entitled to

storage company, Mr Li has set

"occupation rights", as is the case under other experiments in Chinese housing reform. In the past, party members have been expected to lead the way in political purity campaigns. Now Mr Li is a model homebuyer, having traded in a rent of Yn69 a month for an apartment priced at Yn23,000. He had saved half the amount and borrowed the remainder from friends, who will expect him to become a lender if they, too, decide to invest in a bome and hence in China's economic

Housing reform began in Yantai, in east China, six years



Party member LI Xitlan: regarded as a model hor

ago. However, workers and their work units, which own most of the country's housing space, are still reluctant to par-ticipate in a programme linked to the government's drive to strip away the many welfare functions of Chinese compa-

because work units did not want to sell apartments at a loss. Meanwhile, the local government was reluctant to push rents to a level that would increase the incentive for ten-

After the early fanfare, Yantai baulked. Sales were frozen after 1989, partly because of an unfinished ideological debate over ownership, but primarily

ants to buy at market value. The government has restarted the experiment this

year, convincing 11 work units.

including Mr Li's Yantai Supply and Storage Transport Company, to participate. Yantai has ruled that all apartments built before December 1990 are "old" and will be sold at a discount, while those finished after that date are "new"

and the selling price must reflect the cost of construction. Yantai's experiences will be studied by other local governments, which have been delegated the responsibility for setting a timetable for reforms over which there is little dispute back in Beijing. It is agreed among economic plan-ners that housing should be exposed to the market, but it is also recognised that sudden change could produce the

"social instability" feared by struction and then to reflect The central government was

responsible for 90 per cent of 1978, hut its share was cut to 16 per cent by 1990, and has fallen further. By reducing its funding, Beijing has increased the pressure on local governments to develop housing policies or face e heavy burden in direct and indirect subsidies.

In Shenyang, an industrial centre in the north, where 38 per cent of state-owned companies are losing money, reforms are to begin early next year. But Mr Ai Tingjun, the city's vice-mayor, said: "Solving the housing problem will not be

FFICIALS in the northern Beijing district of Haidian would agree. They have suspended a scheme to sell apartments to tenants. many of them academics from the universities and research institutes dotted around the area. Academics complained that planned rent increases were excessive, and demanded special treatment as they were unable to take a second job to supplement their income and could not raise the money to

buy e home. Yantai, wblcb increased rents in 1987 in the first phase the market value of rents. The first change is due to come "in the years before 2000" and the second "in the years after 2000", according to a cautious Mr Wang Qingyuan, president of the city's real estate management bureau Private huyers outside the

work unit system remain a small minority. Mr Wang estimates that only 3 per cent of "commodity houses" built by government authorities are sold to individuals, generally get-rich-quick business people or families backed by relatives overseas. The remaining apartments are bought by work Even Yantai officials, wbo

are et least trying to reform housing, have a limited view of the market's boundaries. For example, if Mr Li or another apartment buyer wants to casb in the asset value and return to the subsidised rental market, he must wait at least five years and will never again be allowed to buy an apartment through the work unit.

And, Mr Wang explained, the capital gains must be sbared with the work unit and the government, though the precise formula of taxes and charges for the unprecedented event of a quick resale has yet

Robert Thomson

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SECURITIES MARKET

Regulators battle to catch up

F THERE was ever any doubt that China is a nation of traders and gamblers. then the enthusiasm for company shares which has developed over the past three years has settled it decisively. The stock market is the point at which the national craving to get rich quickly and the government's desire to see a greater role for market forces

The frenzied buying of shares a year ago may have subsided, but the country is in thrall to stock markets. Kerbside dealers in unofficial shares and bonds have grown like Topsy on the street cor-ners of many Chinese cities, especially those inland.

This enthuslasm for securities has, however, not come without a measure of downside risk. Earlier this year one Beijing company, which had ille-gally issued Ynton in loan securities, failed, leaving disgruntled investors with a pile of worthless bonds.

In Sbenzben last August, more than 1m people rioted when an inadequate system for issuing shares in soon-to-belisted companies combined with official corruption, to deprive investors of a fair chance to participata in tha

Although there is little short of exhortation - that the authorities can do to control kerb markets, they have moved decisively to damp the frenzy surrounding new issues. Officials - though not their families - bave been banned from participating in the stock market: a lot of effort has been put into telling retail investors that sbares can go down in value as well as up; and, the rules for new issues have been changed to make participation

HEN China's stock

book earlier this year the legal

needed governing takeovers.
As Mr Gao Xiqing, a director

department of the State

of the China Securities

Regulatory Commission

takeover in China".

(CSRC), Chlua's corporate

official said "it will take 10

to 20 years before we have a

dried when Bao'an, a fast

on the Shonzben stock

Wrong. The ink had barely

growing conglomerate listed

exchange, was buying stock

anghai-listed manufacturer

with large property huldings.

Bao'an's tilt at Yanzhong

Council - China's cabinet -

questioned why rules were

market regulators

were writing the rule



A nation of traders and gamblers: 'High Rollers' at the Shanghai Securities Exchange

raise around Yn6n since

China's adoption of comput-

erised stock trading - where orders are matched by com-

puter and trading is paperless

- has enabled securities com-

panies to offer real time stock

trading on either the Shanghai

or Shenzhen exchanges virtu-

ally anywhere in China. In

dial a computer and transact

It is hardly surprising that such rapid growth has over-taken the ability of the regula-

tors to police the market. Says

Mr Xu Qing Xiong, chairman, Shanghai International Securi-

ties Co: "Many listed compa-

nies are not following what they said they would when

they issued their prospectuses.

We need more regulation to

check and make sure compa-

nies follow their prospectuses."

the China Securities Regula-

tory Commission (CSRC) are

acutely aware of this problem

which has been the source of

much criticism by foreign bro-

kers - and its associated prob-lems of the timely reporting of

them from happening."

had violated the law

Late last month, bowever,

the CSRC found that Ban'an

governing the acquisition of

Bao'an's sin was to move from

substantial shareholdings.

10 per cent of Yanzhong to

company without making the

Ynim and it was required to

pass on to Yanzhong some of

the profits (about Yn500,000)

it made from the illegal trade

in Yanzhong's shares. Bao'an

was banned from buying any

further stock in Yanzhong

The CSRC's ruling has

professionals thought was a

flaw in the rules concerning

cleared np what some

until Navember 4.

nearly 20 per cent of the

required statutory

declarations.

■ CHINA'S FIRST TAKEOVER BID

Suddenly last summer

Just when it seemed that China's first takeover was at least a decade away, a Shenzen conglomerate

made a surprise move, reports Simon Holberton

The two stock exchanges and

an order over the telephone.

enzhen itself an investor can

in them less profitable.

At the end of September, there were 46 companies listed on the Shenzhen Stock Exchange and 80 on the Shanghai Stock Exchange. In Shanghai, up to five companies are being added to the official every week, and the authorities expect to have 100 compa-nies listed by the end of 1993.

With the growth in the number of stocks traded has come an explosion in the number of securities companies: 205 in Shenzhen, including 10 foreigners, and 448 in Shanghal, including 26 foreign brokers. On both exchanges, foreign brokers are allowed to trade only B shares, of which there are 13 in Shanghai and 20 in

in total, B share flotations have raise \$US1bn since 1991. The amount of capital raised through A share issues is harder to determine: neither the Sbenzben or Shangbai stock exchanges collect figures on capital raisings, preferring instead to talk about market However, capitalisation. according to one Hong Kong brokerage A share issues have

this autumn sparked

and the quality of the

stock market.

regulations governing the

Local loyalties were also

fully engaged. The superior-minded Shanghaiese

were borrified by what the

parvenn from the sonth was

first and most successful

special economic zone. Mr

Zeng Hanxinng, chairman nf

Like it or not, as Mr Xu Qing

Ban'an, was elevated to the

Xiong, chairman, Sbanghai

International Securities Cn.,

noted, takeovers bave come

acquisitinn is inevitable; you

can dn nnthing to prevent

to China. "This sort of

controversy np and down the

sonth China coast about the

efficacy of company takeovers

and the publication of accounts hased on western accounting standards. According to Mr Gao Xi-qing, general counsel at the CSRC in Beijing, the CSRC has set up a working party to study bow best to enforce compliance with the regulations. "We are fully aware of the complaints; the government does have the intention to force companies to publish more information.

CHINA 12

Part of the regulatory prob-lem stems from a division of responsibilities between the People's Bank, China's central bank, and the CSRC.

The People's Bank, which licenses securities dealers, has opposed the rapid development of the securities industry, mistakenly seeing It as a threat to the hanks. The compromise which created the CSRC late last year left the regulator only with the power to aupervise securities companies.

This has meant that the CSRC - which is dedicated to the rapid development of a has had to be ingenious in its attempt to improve the quality of dealers. It has done this through its power to approve the underwriting of new issues. Securities companies have found that to underwrite securities the CSRC applies a standard "fit and proper" set of criteria to them, or licensing by another name.

The difficulties the division of labour between the regulator and the People's Bank may be overcome when a new securities law is published next year. Modelled on the US Securities Exchange Commission. this will vest much wider pow ers in the CSRC.

the timing of declarations and

parties. It has also got China's

securities industry talking

about the value of takeovers.

that China'a regulatory

environment is nut

Mr Gao, although admitting

"pro-takeover", is in no doubt

about their benefit. "A lot of

listed companies still behave

in the same way as they did

says. "The threat of takeover

shows them that control now

rests with shareholders, nnt

vice-president at the Shanghai

Securities Exchange, agrees.

management change and for

and for the economy in the

lnng run."

the management of resources

government departments.

Mr Liu Bo, executive

Takeovers are good for

the definition of concert

Simon Holberton

Infrastructure

Despite big projects now undarway, China faces a daunting task to supply key services for which foreign investment is crucial. Below, and on the next page, FT writers look at the latest developments



Urgent need to upgrade road, road and port facilities

A feeble springboard

China's inadequate infrastructure has emerged as a serious constraint on its future non-inflationary development, reports SIMON HOLBERTON

HINA has embarked on the world's largest axpansion in rallways, roads, ports, electric power capacity and telecommunications. By the end of the century, however, the nation will still be unable to meet demand for these key services, thereby capping the China's ability both to grow rapidly and maintain a semhlance of price sta-

Financing tha country's upgrading of infrastructura resources has also emerged as pressing problem for the authorities. Central government revenues - the mainstay of investment a decade ago have been eroded by the growing fiscal power of the prov-

Beijing's loss of financial control - which may be reversed once planned tax reforms and revenue sharing agreements are in place - has also hampered coordination of infrastructure development. Local interests have sometimes taken precedence over national requirements.

in addition to this, the inefficlency of China's banking system in marshalling domestic savings for investment has also retarded development. Again, this may be addressed by planned reforms of the

Foreign inveatment has become an important source of finance for the development of infrastructure. Such are the needs for increased capacity that China has been forced to allow direct foreign ownership of roads, local railways and power stations.

According to one estimate, compiled by Crosby Securities. Hong Kong stock brokerage, ln China's expenditure on infrastructure development rose to 13 per cent in 1990 from 2 per cent in 1982. This trend is expected to continue.

What follows is a selective look at the current infrastructure bottle-necks besetting the Chinese economy, the government's plans for future development and the difficulties it is encountering in realising its

RAILWAYS. About 70 per cent of China's freight is carried on its 53,000km railway system. In the 8th five-year plan (1991-95), the Ministry of Railways hopes to increase the network by 16,300km, or 30 per cent, and rolling stock by 20

According to the World Bank China's railway network is sufficient to meet only 60 per cent of industry's demand for rail services. Mr Tu Yourui, viceminister of railways, says network can satisfy 70 per cent of

The shape of things to come: poster artists work on a giant mural of what the tower blocks of Pudong. Shanghai, will look like when complete - but for now it is probably the biggest building alte in the world Infrastructure: how China compares lines per 4.089 Hong Kong 4.822 1.141 Thailand Indonesia Philippines

demand, but that "in some areas, especially the main line to south China, bottlenecks mean that we can meet only 40 to 50 per cent of demand."

The ministry plans to upgrade the Beijing to Kowloon line to a double track railway by the end of 1995. It recently mobilised a workforce of 200,000 to accelarate the encountered difficulties on the Guangdong-Guangxi border in the south where 300km of line has to pass through mountains and cross rivers.

Inflation has affected the ministry's ability to meet the 8th five year plan for rail construction. Its original Yn100bn budget for capital construction is up to 40 per cent less than it now needs. This has prompted calls for a reviaw of its very low tariff structure.

It costs just 5.3 fee (about six US cents) to transport one nne of freight ona kilometre. Mr Tu estimates that a one fen increase in the tariff would aarn the ministry an extra Yn11bn a year in revenue. But the coal industry is the

main impediment to increasing tariffs. Half of the freight shipped by rail is coal for the electric power industry. Coal industry losses grew to Yn11.9bn in 1990 (from Yn1.25bn in 1985) and it is doubtful if the industry could shoulder its share of the price

Foreign investment in railway lines has become one way of addressing the financing problem, but so far only for city and intra regional lines. In Zhejiang and Fujian provinces as well as Changoing city in Sichuan, foreign investors are Zhejiang and Fujian they own equity in the lines and are able to develop land adjacent to the rallways. • PORTS. China's big 8 ports

- from Dalian in the north east to Guangzhon in the south handle 80 per cent of China's seaborna trade. According to the ministry of communications, the volume of trade currently being handled is 20 per cent in excess of their design

Over the 1991-95 period China hopes to build an additional 180 berths (100 of which are deepwater berths) and increase capacity by 170m tonnes. The ministry has set a target of doubling China's ports capacity. Today, 50 per cent of ships calling at China's ports have to wait days before they can be unloaded.

Beijing has decentralised decision making on ports development to the provincial and city level. In Shanghai and

Shenzhen, city authorities have brought in Hong Kong hivestors to upgrade container port facilities, with these layes tors owning between 50 per cent and 86 per cent of these

· ROADS. China's road network is one of the most underdeveloped in the developing world. Density of highways is a fifth of that in India.

At the end of 1992 China had Im kilometres of roads, only 6.000 of which were class 1 or class 2 highways - properly paved and consisting of more than one lane each way. China's 30,000km national truck road network is operating in excess of its design capacity. A further 250,000km of roads have reached or exceed 60 per, cent of their design life. The ministry of communications estimates that upkeep for these roads alone is costing Ynion a

The ministry has ambilious plans for the future development of China's road network. Over the next 30 years it wants to see 30,000km of highways linking Cblna's main urban centres. It is unable to estimate the cost of this roads programme, due in price variations throughout the country for land and materials acquisi-

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22.00

Providing the needed infra-structure for shipping goods, throughout China is a daunting enough task. Addressing the social infrastructure needs. of the cities is just as challenging. According to Mr Wang Guangtao, a senior official at: the ministry of construction, China's cities produca 85m tonnes of sewage and waste water a day, of which only 17 per cent can be treated. The hope is that by 2000, 25 per cent can be treated - "this is a big task for us," he adds.

Profile: China International Trust and Investment Corporation (Citic)

Headlong dash for growth

R HUANG JICHEN, vice-president, China International Trust and luvestment Corporation (Citic) is in an expansive mood "we expect total assets to be Yn60bn by the end of 1995 and to reach Yn100bn by the year 2,000," he says.

Size counts in China. Reflecting the central planner's concern with "output." rather than profitability or the efficient use of capital, Citic executives still prefer to talk about growth in assets, rather

The company has increased in size greatly since its founding 14 years ago with Mr Rong Yiren - the son of one of China's leading business families of the pre-1949 era - at the helm. At the end of 1992 - the latest year for which financial data is available - Citic's balance sheet had swelled to Yn50.7hn, almost wholly on the hasis of borrowings.

If the company's first 14 years of operation is any guide then Citic has a good chance of fulfilling its headlong dash for assets growth. Profits, however, are a different matter. At the end of last year the company made a profit of Yn380m, giving it a return on all those assets of just 0.74 per cent - 1 per cent on overseas assets and 0.4 per cent on domestic assets.

Losses during the 1980s. especially on US investments in forestry and steel, eroded a grant of Yn5bn made by the Chinese government at Citic's incorporation in 1979. By the end of 1992 the company's total equity (the sum of paid up capital, reserves and retained earnings) was Yn24m greater than the original Yn5bn capital

Although Citle appears to the outside world as a westernstyle company it is really a development bank its main role is to bring western techto bear on the pressing need to modernise the Chinese economy. Hence the dominant role operations

According to Mr Huang. Citic's foreign operations earn two-thirds of the company's profits and account for half of Citic's assets. Citic is China's largest overseas investor, owning 18 per cent of the country's total investments abroad. Citic has investment in alu-

minium in Australia, forestry and steel in the US, pulp and paper in Canada, and through Citic Pacific, tts listed Hong Kong company, telecommuni-Not all its investments abroad have gone well but, as Mr Huang, explains it, from adversity valuable lessons in business management bave been

"in September, when I was in the US, I met a banker who bas had a relationship with our forestry business [Citifor| since the beginning," be says, "He had seen the wbole process from the start; from when all our equity had been lost to wben the company made a profit. With effort Citifor has become profitable, recouped its losses and is now offering up

profits to Cltic." Mr Huang said that difficult as these experiences abroad have been they were good for managers. He likens it to a school, adding, "to train people without practice is just empty words." He says Citic is paying closer attention to the develop-

CITIC CMC'S total assets in 1992

were Yn50.7bn. Profits were Yn378m. Divisions in the group include:

☐ Iron, steel and non-ferrous metals: 12 ☐ Building materials: 17 companies

☐ Energy: three ☐ Chemicals, pharmaceuticals: eight

☐ Textiles and light stry: 16 companies ☐ Machinery and ☐ Real astate and

☐ Trade and commerce: 12 companies. Finance: 11 companies. ☐ Tourism: 15 companies. ☐ Transportation: one

company. Overseas interests: 🗓 Australla - aluminium. US - steel, forestry. 🗀 Canada - pulp, paper. ☐ Hung Kong - telecoms,

satellites, trading, aviation, Sources: Citic company reports.

ment of its staff, slipping into language that would warm the heart of any western "human resources" manager - "we offer a lot of opportunity to the people bere. We are paying a lot of attention to training and offering staff opportunities to play a full role, especially in

overseas husiness. Citic is also discovering that management and financing techniques used in the west for building large infrastructure projects, such as power sta-

China. The company is discussing with GEC of Britain and National Power, the UK privatised electricity generation monopoly, the construction a 4 times 600MW power station in Jiaxia City on Hangzhou Bay. hased on the "build, operate and transfer" method so common in Hong Kong.

ing this model is because of China's stage of development." says Mr Huang. "We couldn't do it years ago, the fact that we can talk of doing it now shows that reforms and market development have been reallook further at the model it will only work if the price of electricity fluctuates according to the market."

Although the early years of the 1990s bas witnessed an explosive growth in opportunities for foreign investors in Chinese companies, it is unlikely that Citle itself will ever be listed on a stock exchange. Citic reports directly to the Chinese government's State Council, or Cabinet. It is closely linked with both government and the Communist narty at the highest level.

Foreigners can gain an exposure to some of Citic's mainland assets through Citic Pacific in Hong Kong. Next vear they will also be able to buy equity in Yizhang Chemical Fibre, one of China's biggest synthetic fibre makers in which Citic has a 30 per cent share. This is one on of the nine big Chinese state companies which will be listed in Hong Kong during the first balf of next year.

Simon Holberton I tion failed to keep pace, the

COAL AND ENERGY SHORTAGES

An economic bottleneck

eople are not complain-ing too much about the price rises - "not yet anyway," say the blue-boiler suited staff of the coal depot in Beijing'a grimy backstreets. Several years ago the cylindrical bricks of pressed coal

dust were three fen each - now they cost five times as much. The ovarhaul of the loss making coal industry, one of the central parts of China's modernisation, is also one of the most publicly sensitive. It implies not just aharp prica rises but huge job cuts in Chi-

na's coal industry - with 7m

workers, it is the world's larg-

The use of coal is woven buto almost every part of Chinese life in winter, the cities hutongs - crowded lanes of buts - pump out black coal smoke from their beating stoves, while most electricity is

generated from coal. in total, it makes up threequarters of the country's energy consumption. But the need for reform is inescapable. After years of explosive economic growth,

during which energy produc-

aouthern and coastal regions now see their growth threat-ened by coal and power shortages, one of the economy's tightening bottlenecks Although annual coal pro-

duction doubled between 1977 and 1992 to 1.1bn tonnes, it has failed to meet demand. Similarly, electricity generation, which has risen by around 8 per cent a year in the last decade, has been outstripped by GNP, which has risan nearly 9 per cent a year in that According to the State Plan-

ning Commission, the energy shortage may be the equivalent of 500m to 600m tonnes of coal by 2000 if the economy grows by around 9 per cent a year. Part of the problem has been

artificially low state prices. Although the range between provinces is wide, the level has frequently been less than a third of world market prices of US\$35 a tonne. In the past year, the huge China General Coal Corporation, which accounts for a

third of the industry's output,

has taken the first steps to

mines run by provincial and local governments, which must sell specified amounts to China General and state enterprises at set prices. According to a World Bank report in June, prices for this mandatory production were

float at market prices, com-

The rest of the industry le

mada up almost entirely of

pared to 20 per cent in 1992.

raised by 27 per cent to Yn71 per tonne. The government has also, gingerly, begun to tackle overmanning. Since last year,

China has laid off or has made plans to lay off 200,000 employees. The government has given it some Yn2bn a year to pass on as compensation. But even if profitability

returns to the industry and production rises, the creaking rail network threatens to choke off supplies.

Guangdong province, in China's bonming south, imports some coal from Australia because freight deliveries from the north are so erratic. Hundreds of kilometres away, atockpiles of Chinese cnal by the reginnal imbalances between production and consumption: while China's main coal deposita are in the north, the main consumption in the east, south and north east. One of the government's proposed solutions is to build more power plants inland near

the mines. However western diplomats point out that electricity transmission along power cables is currently an inefficient that much electricity is lost on the

Given China's coal reserves estimated by western observers to be some 900bn tonnes -coal will remain the backbone of China's energy supplies for If the transformation of the

industry is successful, Beijing expects annual production to rise by nearly 40 per cent by the end of the century to 1.5bn tonnes But between now and then

Beljing must navigate aome of the most publicly contentious issues of its programme of reform.

Bronwen Maddox



the very least Russia is nicery to need World Bank help if it is the WANO governing board to need World Bank help if it is the want governing board which the nuclear industry has o proceed.
In the Ukraine, unable and Electricité de France, told the little control.

reform by allowing coal prices. smoulder while waiting on 57 per cent of its output to months for freight trains.

The second secon

OREIGN manufacturers are waging an intense battle to win a greater share of China's booming multibillion dollar telecommunications market.

"There is fierce competition. because the stakes are so high," says a western business executive involved in telecommunications. "China could buy more phones than many countries combined "

China has about 17m phone lines and about 1.6 phones for every 100 people. This compares with about 50 phones per 100 in the US. Beijing's goal is to have 100m lines in operation

The focal point of the competition is China's public switching sector. The government is expanding and modernising its telephone exchanges by installing "stored program computers" (SPCs) to replace the older electro-mechanical equipment to do the

The leading manufacturers in this market are Alcatel, Bricsson, North-ern Telecon, Siemens, NEC, Fujitsu and AT&T. However, the price for entry into the market is high, Companies have been told that to manufacture switching equipment, they must also make semiconductors in China according to western businessmen.

"The Chinese want semiconductor

lines - it's the basis of everything from modern weapons to computers," a western diplomat says. "It's more important than the internal combustion engine was, 100 years ago. And it's extremely expensive to set up."

CHINA NATIONAL

R HAN GENGSHENG, vice-president of the China National

Chemicals Import and Export

remarkably sanguine for a

man who had recently seen

lucrative monopoly over the

marketing of Chinese crude

Economic reform will

his organisation lose its

oil and derivatives.

unpleasant effects on

and opportunities for

companies with monopoly

believe that this kind of

positions," he says. "But I

reform provides challenges

development." Sinochem, as the giant state

trading corporation is known

list - has been obliged to enter

Corporation for crude exports, and with the China

Formatinn of the new joint

venture companies, China Oil and the China International

United Chemical Orporation

(Unipec), represents one of

China's oil sector in many

years, and also coincides with

the abolition of the Ministry

bureaucracy approved this

China National Petroleum

Corporation, left no doubt in

an interview that he derived

particular satisfaction from

the new arrangements that will involve CNPC not only

in the production of crude,

but also in marketing.

He plans to use extra

including investments in

refineries. CNPC is also

interested in expanding its

China National Development

exploration and development,

but whose activities have been

reach abroad through its

to seek opportunities in

to further develop CNPC's

revenues from these ventures

year by the National People's Congress, China's parliament.

Mr Wang Tao, chairman of

the higgest shake-ups in

of Energy under a streamlining of the

50-50 joint ventures with the

China National Petroleum

Petrochemical Corporation

(Sinopec) for the marketing of refined products.

- the company ranked 29th in 1992 on the Fortune 500

■ TELECOMMUNICATIONS MARKET

High price of entry

Most manufacturers have little choice. To sell their array of other communications equipment, they must be in the switching market, the diplomat adds.

Nearly all of the western telecom-munications manufacturers in China have established, or are in the process of establishing, micro-chip production plants.

Siemens has a chip factory in Wuxi near Shanghai, Alcatel has a similar arrangement with its Chinese joint venture partner in Shanghai, and the Japanese multinational NEC produces semiconductors at the state-run Capi-

tal Iron & Steel plant in Beijing.

AT&T is also believed to have reached agreement to set up semi-conductor operations to support the manufacture of its planned switching joint ventures in Qingdao, a port in north-east China, and Chengdu, the capital of Sichuan. These joint ventures are expected to begin operation

Northern Telecom has nearly con-cluded negotiations to make switching equipment in Shunde in Guangdong province and expects to begin production of switches by the end of this year or early 1994. It will use

China aims to have 100m phone lines in operation by the year 2000. Above, a woman checks her pager i

CHEMA NATIONAL
CHEMICALS IMPORT &
EXPORT CORPORATION

CHINA INTERNATIONAL UNITED CHINA UNITED OIL CORPORATION (50-60 SINOCHEMISMOPEC)

OIL AND GAS INDUSTRIES

Big shake-up under way

severely curtailed because of lack of funds. Changes in the nil sector also coincide with

the beginning of a period of

onshore regimes, especially in the promising Tarim basin

area of far-western Xinjiang

Mr Wang said earlier this

11 southern provinces of China

12 areas would also be offered

including remote regions of Qinghai province and Xinjiang

in the west, and Inner Mongolia in the north-west.

response from the oil majors in March when it offered five

hlocs in the prospective Tarim

basin covering an area of

foreign companies in the development of

at 30bn barrels) are being

a net crude nil importer. Mr Wang estimates that

exports will exceed exports

this year by about 4m tonnes.

Onshore production this year

is expected to be much the

tonnes. But he warned that

anticipated this year of about

13 per cent, it was unrealistic

to expect that China could

continue to produce more oil

than it consumed without big

"The petroleum industry

is developing like a tortoise,

ha observes. Even if good discoveries are made in the

Tarim basin, it will be some years, and possibly not until

oil is flowing in large quantities from China's far

west. The cost of building a

from the Tarim area across

the national pipeline grid is

estimated at about U\$2bn.

pipeline more than 2,000 kms

rugged terrain to connect with

the turn of the century before

and GNP growth like a hare,"

same as last year's 138m

with economic growth

new discoveries.

given added urgency by the

likelihood that hy 1995 at the

latest the country will become

China's oil reserves (estimate

72,730 sq km.

China attracted a good

vear that in addition to the

which had already been

opened to foreign involvement, an additional

fureign companies in the

search for oil in China's

heightened activity involving

CHINA NATIONAL

PETROL FUM

Exploration activity is also

continuing in offshore areas;

mention huge losses, suffered by Western companies such as British Petrolaum in the

1980s in a fruitless search,

has dampened much of the

Mr Chen Binedan vice

Corporation (CNOOC), said

prospective areas offshore,

the Pearl River delta, and

such as the East China Sea.

waters off Hainan Island in

Mr Chen expects to have

concessions in the East China

Sea by the end of the year. CNOOC itself continues to be

production at its own wells

in China's northern water.

where it brought onstream

a new field in September. It is also looking forward to

small fields into production

Agip, Chevron, Texaco, Philips and Amoco hringing relatively

between 1994-1996 in the Pearl

This year, CNOOC expects

nfl production from nffshore

disappointed by results of oil

exploration offshore, it is looking increasingly to its gas

booming economy, especially

southern regions, and Hong Kong. By 1996, CNOOC expects

areas to reach 5m tonnes -

and to grow to about 12m

finds to justify its own existence, and to provide

energy to fuel China's

in its energy-deficient

to be supplying 2.9hn cu.

metres annually to Hong

Kong, and 500m cu. metres to Hainan island itself from

fields off the island's south

coast. More finds are being

mada in waters off Hainan,

supplying 20bn culmetres to

sumers in Hong Kong and

on the mainland hy early next

and CNOOC hopes to be

tonnes by 1997. But

in areas such as the Bohai Sea.

awarded contracts for 13

active in its efforts to lift

his organisation was pressing on with its efforts to engage

president of the China National Offshore Oil

foreign companies in

the south.

early enthustasm.

although the crushing

disappointment, nnt to

Beijing whilst using an old style pay phone, as the money collector walls in the cabin.

PETROCHEMICAL



Taking shape: the new TV tower at

other joint ventures which the Canadian giant is establishing in Shang-

Northern Telecom has also recently won \$159m of contracts to sell switching equipment to the provinces of Henan, Jiangxi, Shaanxi, and Yun-

period when the State Council initially allowed only three multinationals to form Sino-foreign joint ventures to manufacture switching equipment. These were Alcatel affiliate, Shanghai Bell, a Beijing-based Siemens joint venture, and an NEC company in

Other multinationals were frozeo out, but under pressure from Washington and other companies, industry sources said the Chinese Ministry of Posts and Telecommunications agreed to ease its restrictions on the lucrative switching market.

Of the foreign telecom companies Alcatel is the market leader in the switching business with about 30 per cent of the market; Siemens has approximately 15 to 20 per cent, NEC a smaller share, with the rest split among other foreign manufacturers, say industry sources.

Alcatel is the most aggressive. Its joint venture with Shanghai Bell has tripled its design capacity to produce more than 2m lines last year - and Alcatel has sold an additional 2m lines direct to local hranches of the Ministry of Posts and Telecommunication since the 1980s.

Siemens also plans to dramatically Northern Telecom's sales follows a increase its production capacity from 1.5m lines this year to 3m by 1995 at its Beijing nperation. Last year, the joint venture produced 370,000 lines. Meanwhile, Eriesson plans to install 1.8m lines in Guangoong over the next few years.

Apart from switching equipment. demand for the latest technology in optical fibre networks to transport speech or data is also acuie, western husinessmen say. The government recently had teoders for large long-distance optical fibre networks crisscrossing the country.

"China is developing so fast that it wants to go in at the nighest level, rather than spend years with older equipment," says a western business-man. "The Chinese weren't huying nptical fibre equipment in 1988 and '89. Now, they are poised to take advantage of the latest technology."

Because of the country's telephone shortage, mobile phones and radio pagers have proliferated wildly in an unregulated atmosphere, often with network frequencies interfering with each other. To impose more order on the market, retain its monopoly and cash in nn the huge consumer demand for pagers and other datacommunication services, the Ministry of Posts and Telecommunications recently issued new licensing regula-

Foreign manufacturers welcomed the decision, saying it would help stop the production of poor quality and counterfeit pagers.

Lynne Curry

Successful joint venture profile: Shanghai Bell

Well worth the risks

Lu de Chun: aiming for high

transfered to the joint venture.

Alcatel Bell introduced not

nnly the exchange and switch

manufacturing capability, but set up a subsidiary of Shang-

bai Bell, called Shanghai Bell-

ing, to make wafers for silicon

In Mr Degraeve's view, for-

eign companies' concerns

about losing control of the

business after they have trans-

ferred technology "are justi-

fied." But in the end "you

have to take the risk," he says.

In Shanghai Bell's case, the

requirement was easier to ful-

covered a virtually unused

wafer fabrication plant

already in Shangbai, with

plastic covers still on the

equipment, and took it over.

is how to transfer manage-

ment standards. Like other

high-tech companies, Alcatel

Bell was attracted to Shanghai

hy the large number of techni-

cally qualified graduates

emerging from its universities. But although the graduates

are technically qualified, one of his hardest tasks is to instill

The higger issue, he argues,

than it bad expected: it dis-

microchip standards

OUR BIGGEST problem is management" says Mr Bert Degraeve, the Belgian who is general manager of Shanghai Bell, one of Shanghai's most successful joint ventures between Chinese and foreign companies. A sbortage of skilled managers is also Chi-na's higgest problem in attracting investors, he

Set np in 1985, Sbanghai Bell Telephnne Equipment Manufacturing, epitomises the kind of high-technology investment which China craves. Telephone exchanges and switches from its Shanghal factory, designed to some of the latest overseas standards, are being slotted almost daily into the country's overstretched telecommunications network.

The group was created as a joint venture between the Shanghai Ministry of Post and Telecommunications, which owns 60 per cent; Alcatel Bell, the Belgian telecoms group, which holds 32 per cent; and the Belgian government with 8

eign owners are clear. While the Belgian market for exchanges is 300,000 lines a year (a measurement of the exchanges' capacity), the Chinese market is already nine times the size. This year, Shanghai Bell expects turnnver to be US\$450m, compared to US\$230m last year and \$50m in 1990, even though the price of the products has halved in the past eight years.

Hnwever, the price of entry to the Chinese market was the govarument's requirement that foreign technology be a sense of precision and high

"You can see the circom-stances in which people are living, the crowded rooms, the clutter, the traffic, the noise. Then you expect people to come in this gate and turn around 360 degrees" to produce precisely-engineered products - "that is what we are demanding of them."

His job is made harder because the Cultural Revolution bas left a sburtage of trained 40 to 50-year-olds - "the result is that company structure is then distorted" hy a disproportionate number of young staff, he says.

Despite these problems, Shanghai Bell believes it has a head start and a competitive advantage which will put it ahead of other rivals; US telecom groups now have the eye on the market. The same may not be true, bowever, of Belling, its subsidiary.

Mr Ln De Chun, Belling's general manager, acknowledges that Belling's chips are some way below the standards of the best international plants. Only between 60 per pass the tests at the end of the production line, compared to 99 per cent in the most highly automated Japanese plants. Belling's most complicated chips oeed to be be sent to South Korea and Taiwan for

assembly. At the moment, 85 per cent of Belling's business is with Shanghai Bell: the parent company is keen on owning local suppliers of components because of the difficulty and expense of importing.

Bronwen Maddox

Anxiety over safety in the skies

Airlanes congested

HE RAPID expansion of China's aviation industry is straining the country's ability to maintain adequate safety standards, according to Western aviation experts.

The proliferation of airlines, coupled with the purchase of so many aircraft in the world's fastest growing aviation market, has triggered alarm among senior Chinese leaders and western experts about just how safe the country's skies really

Their idea of aviation is aeroplanes," a western husi-nessman said. "It's almost as an afterthought that the Chinese consider maintenance, the training of pilots, and airports

to handle passengers."
Indeed, since the mid-1980s the growth in the passenger and freight markets has soared to 25 per cent a year. Even with a projected slower growth rate of less than 20 per cent annually through the end of the century, western businessmen estimate that Chinese airlines will continue to need 50 planes a year for the next decade.

To meet this demand, foreign aircraft manufacturers are flocking to China. Boeing Corporation and Airbus Industrie have been market leaders. In the spring of this year, Chinese airlines bought 21 Boeing jet-liners, making a total of 150 Boeings either leased or sold to the country since 1972, when China placed its first order with the American manufacturer. China has also purchased 12 aircraft from Airhus this year. Prior to that sala, altogether the European conChinese airlines.

Making the skles safer depends on making improvements in several vital areas: air traffic control, radar, ground equipment and pilot shortages. China'a air space is controlled by the military and civilian airlines must request use of it. Civilian aircraft are allotted narrow corridors within which to fly and cannot

deviate out of them. With more aircraft flying in the same air space, western diplomats said the likelihood of an accident increases. The air space problem is compounded by China's severe shortage of radar and ground equipment and pavigational and landing

"China is using the same amount of radar to cover more aircraft," a western diplomat said. "It is not ready to adequately handle the increase in the number of planes its airlines have acquired. There are even areas in China that have no radar. And if you have no navigational aids, you're in

Moreover, China lacks a national system of civillan air traffic control Transferring aircraft from one flight information region to another as it is done in western countries simply does not exist.

Pilot training also lags behind the West. Modelled on the Soviet method, pilots are given instructions from air traffic control on the ground, and western diplomats said they are not trained to request permission to alter their original route - "if you are flying a plane in China, it goes through Tony Walker | sortium has sold 17 aircraft to clouds and turbulence because

ing or leeway to deviate from the course...so you end up with a rather humpy ride." The difficulties and dangers are compounded by an acute shortage of pilots. The country's only training school, run tration of China (CAAC) and located in Chengdu, Sichuan, turns out 80 pilots annually. the country currently needs a total of at least 600 new pilots.

they should.

The drive to he profitable has also led to overloading aircraft with passengers and cargo, and to aircraft flying for inspections and mainte-

Because of the pilot shortage.

pilots fly longer hours than

Since July last year, China has had five reported acci-dents, which killed 331 people. Even within the first two weeks of a 100-day safety campaign for the Chinese air force, two F-7 fighters collided, killing both pilots.
Given all of these safety

problems, the Chinese are attempting to improve safety standards - "safety, safety, safety - the order has come from the top. The State Council has said safety is a first priority." a western businessman says. In response to this pressure

the military has grudgingly By 1992, according to econoagreed to release control of some of the air space to CAAC, but western diplomats say the armed forces have been slow to implement this policy.

New money culture

Below, and on the back page, writers examine China's growing township and village enterprises - led in many cases by rural workers who have found fresh incentives and new riches



Township and village enterprises discover new prosperity

There is no going back

As many as 19m rural enterprises have mushroomed in China over the past 15 years, reports ALEXANDER NICOLL

N 1978, Mr Wang Zhou Long set up a smail steel workshop outside De Yang, an industrial city in Sichuan province which already boasted some formidable state-owned

steel plants. Mr Wang was the village accountant. He bad learned mathematics at primary school but otherwise had no formal education. He initially employed 27 people and had, he says, no money, no technicians and no equipment - "the idea was developed by all of ns," Mr Wang says. "Every-

body wanted to get rich," Today, De Yang Iron-Steel Plant is the tenth largest town. ship enterprise in China, It has previously worked on the land - and earns a pre-tax profit of Yn80m for the eight townships which own it. Its products sell in 23 provinces as well as Thailand and Taiwan, competing with those of state-owned companies - on what had been

farmland sprawls a rough-and-ready collection of furnaces and equipment churnng out steel bars and pipes. Mr Wang says he is not a rich man, earning only a salary. But he is a prominent figure in the community as the

recently-elected town leader and a member of the National People's Congress. He is ambitious for his company, baving opened two new furnaces this year alone at a cost of Yn70m. With Yn40m

still at his disposal for further expansion, "I can negotiate with anybody." he says. He is discussing the establishment of a \$10m aluminium alloy factory with a Taiwan company.

This is just one of the esti-mated 19m rural enterprises which have mushroomed in China over the past 15 years. Conceived as a means to soak up the surplus of farm labour created by agricultural reform, they have become the most dynamic sector of the economy. The entrepreneurs who run them will have a lasting impact on Chinese life and business culture.

The new bosses are people with little or no education or



special skills - in many cases, their schooling was terminated by the Cultural Revolution in the 1960s. They are people who instinctively spot market opportunities and exploit them. To an extent not known in Chinese husiness since the 1949 revolution, they must live on their wits. Many of them are already very rich.

Township and village enter-prises account for about onethird of China's gross value of industrial output. They employ ahout a quarter of China's 430m rural workforce, account for about one-third of farm incomes, and are still growing

mists at the International Monetary Fund, they accounted for 25 per cent of China's exports, with textiles, clothing and arts and crafts products accounting Lynne Curry for nearly half this figure.

gues that it is extend working inter the trend to nent, "We need e for the social stem," he says. not come from

ues in favour of a ing week, and a , the normal time

terly apposed by novement, which g time cut to cre- Employers are use early retireelatively painless

the government o cap its social amitments - for a 3 percentage unemployment lishing the "bad ey" and putting a earnings-related a small way, with-

same with the health reforms last January, nefits in the short ot changing the ructure of a sysests are geared to

problems in the iave been all too ified. Long-term

'th orticle on welcles appeared on



and services where demand

had not been satisfied by the

system - from car repairs to to

Technically, the enterprises

are collectives owned by town-

ships and villages and may be

quite closely supervised by

town or village authorities,

Many are, however, effectively

Rural enterprises operate

under the advantages and dis-

ciplines of the marketplace.

They have far greater flexibil-

Ity than state-owned industry

they do not have to answer to

a supervising hureaucracy;

they can sell at market prices

and set pay levels as they

want; because their employees

are already housed oo the land,

the enterprises have no "iron rice bowl" responsibilities to

them; they enjoy tax concessions for their first several

years and profit re-invested in

expanding production is tax-

shoes to vegetables.

in the private sector.

Wang Zhou Long - "I can

The obverse side of this freedom is the absence of the protection enjoyed by state industries. Rural enterprises have no guaranteed market for their products. They have no access to soft loans. When the economy turns against them - as it did with government austerity measures from 1988 to 1991 makes for efficiency but also for vulnerability.

In Xian Yang township near Chengdu, in Sichnan province, where 5,500 of the 15,000 population are employed by 34 township enterprises, the township arranged to inject equity into some of them when bank finance was temporarily cut off this summer because of central government moves to tighten credit.

Frustrated by their inability to predict the whims of Beijing, many rural industrialists are becoming involved in both local and national politics. Potentially, they represent a strong middle class political force. As the government seeks enterprises which it has long protected, the husinessmen who have come up the hard way will be increasingly sensi-tive to official favouritism towards state industry.

As they seek to develop. rural enterprises will face a number of problems. Many bosses complain that China's poor infrastructure hampers efficiency and increases costs.

The new culture of competitive, money-making business is to be found in unlikely places. Mr Qiu Guobing, 68 years old and a Communist Party member since 1952, has more than doubled the productivity of his fish farm, a village enterprise just outside Chongqing in Sichuan, since reforms began. He sells his fish by auction to the highest hidder, he runs training courses on fish farming techniques, and bis biggest problem is theft.

He sees no going back to the starvation he witnessed in the 1970s - "the People's Commune was said to be a paradise. But it made people foolish. People were cheated," be says. "Socialism with Chinese characteristics is very suitable. Local markets everywhere are leading to prosperity."

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wember 3, 8, 17



activities domestically. Company, established in 1981,

The nsing money culture: FT correspondents discover the ingenuity of some of China's growing band of entrepreneurs

The new rich emerge

EARD the one about the man from Sichuan who made a fortune out of nothing by huying used Russian abcraft in exchange for train-loads of Chinese consumer goods?

sumer goods?

This true story is just one of many told in admiring tones to illustrate the helter-skelter of money. Ill-patd bureaucrats are goggle-cyed when they see the riches being made by China's new entrepreneurs. Suddenly, in the words of one, "money is fiving in the air."

denly, in the words of one, "money is flying in the air."

Here we offer some snapshots of the new culture of money from around China.

Mr Xue's herbal remedies

OUT of berbs which cost nothing except the labour needed to pick them. Mr Xue Yongxin has in seven years generated a company with annual turnover of Yn300m, writes Alexander Nicoll.

"In my opinion, it's only a starting point," says Mr Xue, who aims to quintuple the figure by 1996.

The company's main prod-

The company's main products are e lotion and tablets, made entirely from Chinese herbs, for the treatment of vaginal inflammation.

Mr Xue, 41, says he was previously an itinerant worker studying medicine, Taolsm and architecture. He educated himself because his schooling was interrupted by the Cultural Revolution. In 1986, he founded Chengdu Enwei group, in which he holds 92 per cent. At the time, few people were willing to invest in a new company—"I was very adventurous to establish this enterprise," he

says.

With annual pre-tax profit of Yn100m, Mr Xue is already a rich man – though he professes Taoist beliefs in harmony and helping society. "Money will do no good to the human body, unlike medicine,"

he says.

Boasting 46 group companies and 30 sales offices around China, as well as in Vietnam, Thailand, Russia and Japan, Mr Xue can see few obstacles to further exponential growth. He is applying to have his

main products approved by the US Food and Drug Administration (as cosmetics, rather than

After finding that poor packaging limited his ability to export, Mr Xue is huilding a new packaging plant with imported equipment.

A man with marketing flair which has been rare in China, he is looking for cross-marketing agreements with foreign manufacturers of name-brand products. Mr Xue uses television and poster advertising in Chengdu, capital of Sichuan province, and is expanding sales throughout China although he is hampered by inadequate railways and roads, power supplies and telecommu-

And, inevitably for a medicine company with an eye for massive growth, Chengdu Enwei has a cure for Aids as well as other fatal diseases including liver cancer. Its Qian Kun Ning herhal capsules, according to the company's literature, have "the effect of replenishing Qi to invigorate the spleen, promoting blood circulation, relieving flatulence, removing heat, detoxicating and enhancing the effect of the body's immunity." Chinese researchers are exam-

Mr Mo's profitable pickles

ining the claims.

THE IDEA is extraordinarily simple. But from a few sheds in Sichuan province, Mr Mo Goshun says he makes a profit of \$1m per year, writes Alexander Nicoll.

His five-year-old enterprise in Xian Yang township cuts, salts and pickles vegetables, and sells them to Japan. Mr Mo himself spotted the market opportunity. Mushrooms which grow wild in the mountains of Sichuan seil for \$250 a kilogram in Japan, he says. He claims that it costs him \$400 to process one ton of mushrooms and that he sells them for \$14.000 per ton.

Seeds for cabbages and other rsw materials are imported from Japan, and the enterprise also processes onions, eggplant and other vegetables according to demand in Japan. Mr Mo admits that ha is

already a rich man in Chinese terms - he expects to set up a co-operative agreement with a Japanese company, but says that "we do not need the money."

Stores report spending fever

"MY POCKETS are buiging with money," says Mr Fanchunfu, a stallholder in Tianjin's higgest department store. He transports zip-up jackets from the southern provinces to Tianjin, sells around 40 of them a day, and makes Yn1,300 a month, writes Bronnen Maddale.

The store's four teeming floors in Tianjin's Hongqiao district, which open at six in the morning every day, are testimony to the spending fever gripping Chinese families. Customers elbow each other out of the way to try out the electronic games, cosmetics, and karaoke microphones.

Mr Ye Furong, the store's general manager, explains that the store has been set up as a market, with space rented to private stallholdere, "because we [the store's founders] do not have enough experience in developing a market system. Our aim is to mobilise private businesses to do that."

Open for nearly two years, it now has more than 1,000 stallholders who supply their own goods and set their own prices. Trading volume is expected to reach Y300m this year.

"These husinesses work according to the law of the market," comments Mr Ye. "If it is cheap, lots of people will buy it."

The managers' embrace of market values is now so firm that when asked what makes a good businessman they give a textbook answer: good information; matching supply with customers' tastes; quick transport; good quality, and setting prices in line with quality.

Although the managers

hotly reject the label of speculators, the enterprise also illustrates the kind of property deal of which Beijing officials have become wary. The cost of building the store, Yn30m, was financed by a loan from a local property company on a interest rete of 7.2 per cent a year, with part of the interest deferred.

The interest rafe is lower than hotels and restaurants would pay "because this kind of project is encouraged by the state" says Mr Ye. "We are selling little goods that people need."

Yet, although they have paid back only a third of the loan, they now have an empty site earmarked for a second, bigger store, which they plan to finance with a second loan from another property company.

Questioned on whether they would earn more money as traders in their own store than as its managers, they roar with laughter, hut the eventual answer is "yes." That response reflects one of the new tensions of China: officials and managers are increasingly confronted with the spectacle of poorly-educated entrepreneurs earning a fortune.

The stallholders themselves

The stallholders themselves express no doubts about their new jobs. Mrs Han, 40, who runs a sock stall in the store, used to work in a Tianjin factory repairing machines—"twenty years ago I never would have dreamed I'd be doing this. The market system is good. Business is good."

New fashions catch on

AFTER ONLY three weeks of running a Japanese joint venture clothing store in Beijing. Mr Kunio Kawasato, is already fascinated by the mystery of conspicuons Chinese consumption, writes Robert Thomson.

"You look at the statistics on what people are supposed to be earning, then you see how much the customers are spending, and the figures don't add up," says Mr Kawasato, general manager of a venture hy Taka-Q, famed for its contribution to Japan's post-war development by supplying the standard blue suit to salaried





The bosses of the Tierpin department store which has four seeming floors in Honggies district — see report: stores report spending fever

workers. He puts the willingness of Chinese customers to spend at least Yn1,200 and sometimes much more, on the lack of spending options — "people are not saving for a house or a car, and the taxes are not high," he says. "Food is relatively cheap, so people are using their money for clothes

and entertainment."
Tapping into those relatively large urban incomes is the aim of the Taka-Q venture, though publicity in Japan has put the ahop on the tourist man for visiting Japanese. While Mr Kawasato was explaining how he has encouraged good manners among the shop assistants, a tourist group was

downstairs looking for Japanese quality at Chinese prices. The store, near the main Beijing shopping street of Wangfujing, is a joint venture with Leimeng Garment, which ran a Mao suit store during the cultural revolution. As political fashions changed, Leimeng moved into western suits and, now, a foreign partnership in Italian-style suits, leather jackets and business shirts.

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Taka-Q Leimeng looks like one of the Japanese company's outlets in suburban Tokyo, but Mr Kawasato is still coaching the sales assistants in the Japa-



Adventurous Mr Xuec herbei products have mede him rich

nese arts of politeness. In many Chinese stores change is often tossed back at customers by mute assistants for whom a sale is an unwelcome intru-

"We have trained the assistants to say, 'thank you very much, please come again,' as would be the case in Japen. I think the customers can feel a difference between this store and other Chinese stores, but our levels are still not high enough," he says.

enough," he says.

Mr Kawasato has made the assistants more attentive to sales by giving them a relatively low base salary and introducing a commission system. But retraining the former

Leimeng staff, accustomed to low-effort service, has been more difficult than coaching

recently hired employees. In Japan, stores euch as Taka-Q often keep files on customers and run a discount card system for frequent buyers, but Chinese customers are reluctant to provide information for a personal file. Until now, only the Communist party, the police, and the State Security Bureau have kept personal files.

Taka-Q is supplying the store from its own joint venture factory near Beijing, which also exports garments to Japan. Among men, suits account for the sales, while Chinese women are most influenced by fashion trends started in Hong Kong, Mr Kawasato

"The level of brand and quality awareness in China is even higher than that of some Japanese consumers. But the use of the suit is different in China," he says. "Men don't wear a suit to work, but they wear one on their day off, if they go out."
Take O is planning a chain

Taka-Q is planning a chain of Chinese stores, though opening dates are not fixed - "if we open more stores, the production costs will fall," he adds. "Before the war, the company had a store in Shanghai, so there is a historical reason for the interest in China."



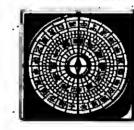
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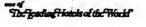


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SWISS BANKING AND FINANCE

Thursday November 18 1993

WITZERLAND'S international financial services sector is enjoying an unexpected and vigorous revival: It is not just the fact that the country's big universal and private banks are heading for bumper profits this year. Big banks and brokers everywhere have benefitted from buoyant securities and money markets in recent months.

And it is not just the fact that the brisk inflow of foreign investment capital is continuing, although the decision by the Swiss a year ago to eschew closer ties with the European Union has undoubtedly helped refresb the country's image as an independent safe haven.

More importantly, the financial scene has been energised by the recent removal of stifling restrictions on importing skilled professionals, the removal of some transaction taxes and improved education pro-

A new sense of optimism is emerging that Finanzplatz Schweiz can after all retain a useful and profitable role in European finance in the face of increasingly stiff competition from London and other

large centres. While hundreds of clerical jobs are being inst as banks rationalise branch networks and atreamline hack office operations, many new high value ones are being created in the country's increasingly lively securities and derivatives markets.

Indeed, activity is so brisk that the Zur-

ich Stock Exchange, whose leaders were in a state of high anxiety two years ago over the burgeoning trade in big Swiss equities in London, is planning to open a seventh trading ring next February, either for Swiss bonds or for foreign equities.

The derivatives markets, underdeveloped and flagging two years ago, have been helped by improved education programmes in Swiss universities and a more liberal government policy on granting work permits to highly skilled people.

Last year, the authorities would allow Credit Suisse Financial Products to bring in only two experts from its London base. Now, banks can bring in whoever they need. "Zurich is at the state of the art". says Mathis Cabiallavetta, Union Bank of Switzerland's director responsible for derivatives. "We feel we can do anything here that could be done in New York or London, and we are regaining ground."

The one dampening element in this revival is that the Swiss economy is in a dreary state, having suffered three years of mild recession and some economists believe even a weak recovery is still some

Thus, while securities and international. financial business are booming, the domestic commercial banking scene is in a dismal state. Three years of elumping property markets, sluggish sales for industrial companies and falling tourism activity past two years, and Mr Roland Boeschen-



Brisk activity on most fronts

Continuing recession is a dampening factor but a sharp upturn in its fortunes is persuading the sector that it still has a useful role to play in European finance, writes lan Rodger

have left banks with an unprecedented level of bad debts.

The big universal banks can and will absorb record provisions for bad loans this year without breaking stride, but the smaller cantonal and regional banks are not so resilient and the trend to painful consolidation in these sectors continues.

The number of regional banks, for example, has tumbled from 190 to 150 in the

stein, deputy director of the Association of Regional Banks, says the process, which has slowed so far this year, is likely to accelerate again when bank directors take

stock at year end.
Ironically, the biggest single consolidation seen to date, the takeover by Credit Suisse of Swiss Volksbank early this year for SFr1.6bn, (£740m) appears to have intensified the competitive struggle, at least for the time being. At a stroke, this

acquisition catapulted Credit Suisse from a weak third position in most domestic markets to a neck and neck battle with UBS for leadership.

Both UBS and Swiss Bank Corporation the latter now an embarrassed number three in most markets - have responded by stepping up their marketing efforts, undoubtedly in the bope of picking off disaffected customers from Credit Suisse or Volksbank. Others have bad no choice

but to follow. "We thought that after everyone took a bath in the mortgage market in the past two years, a risk premium would appear this year, but no way," says Mr Josef Ackermann, the new chief execu-

tive of Credit Suisse. One immediate consequence is that the big banks are, if anything, accelerating their cost-cutting programmes, including

eliminating jobs. This has gone down badly with the gen-

eral public. Many people cannot understand how the banks can be so insensitive at a time when they are making record profits and when unemployment is already soaring because of lay-offs by hard pressed industrial companies. But the banks, if slightly uncomfortable with this criticism, are unrepentant. "It would be totally wrong to finance the weak domestic side from our trading profits from elsewhere, says Mr Ackermann. "We would be heavily and rightly criticised three years

from now if we did not act." The private banks, too, are having a banner year. Most of these banks, which specialise in managing private fortunes and, to an increasing extent, institutional portfolios, are themselves private and do not publish their financial results.

But Baer Holding, one of the largest, reported that its consolidated net income more than doubled in the first half to SFr71m, with the volume of clients' assets up 17 per cent to SFr38.7bn and trading income more than doubling to SFr114m.

This sparkling performance has helped rehuild confidence that this sector, the heart of the Swiss financial centre, can remain internationally competitive. Estimates put the value of foreigners' funds in the country at more than SFr1,000hn, a third of all offshore investment.

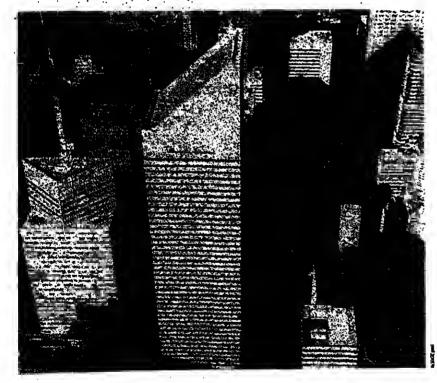
That may be a hig drop in market share from the near monopoly that Swiss bankers had early in the century in this high margin field, hut "the miracle", says one private hanker, "is that we have held on to as much as we have".

says Mr Hans-Dieter Vontobel, chief executive of the eponymous private hanking group in Zurich, "It enables us to do things that someone starting from zero cannot do." Mr Vontohel published a book two years ago expressing concern about the future of the Swiss financial centre, and in particular about the commitment of the hig universal banks to it. At the time, the hig hanks seemed to he moving many activities - especially in the securities field - to London.

to the development of the national electronic stock exchange, due to be completed late next year after two false starts in the late 1980s. That development, with the removal of some transaction taxes and aggressive cost-cutting, makes operating in Switzerland look much more attractive.

The big banks realise that we are now

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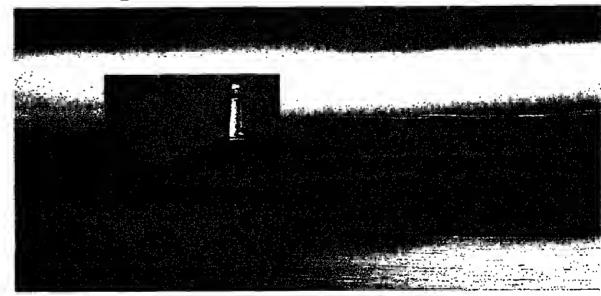
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"Our market share is an advantage,"

Today, be confesses to having become "rather optimistic". He points in particular

able to be low cost producers. London outmanoeuvred Switzerland and others in the 1980s, but it has its problems now. I cannot comment on the outcome of the war, hut the next battle could go to the conti-nent and to Switzerland," Mr Vontobel



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ECONOMY

ittle to celebrate

Swiss economy these days, but neither its current state nor its prospects appear to be as had as many have feared.

The country is coming to the end of tha third year of a recession that has been umpleasant. but mercifully shallow. According to recently upwardly revised figures, resl gross domestic product was in fact stagnant in 1991 and contracted by only 0.1 per cent last year. It is expected to fall 0.7 per cent this year.

The slump was initially self-imposed, as inflation shot up to more than 6 per cent in 1990, forcing the Swiss National Bank to tighten monetary policy just as other stimuli were showing signs of flag-

ging. The effect of the squeeze was felt first on private sector investment. It contracted 2.5 per cent in 1991 and 5 per cent last year, leaving the construction industry, property markets and many machinery sec-tors in considerable difficulty.

On the other hand, exports, which account for more than a third of GOP, held up remarkably well, growing 3.4 per cent last year. But they have sagged this year as the German economy has slumped.

By far the most damaging aspect of this recession has been its impact on jobs. The unemployment rate has shot up from less than 1 per cent in 1990 to 4.5 per cent, with a record 170,000 people now out of work. Economists agree that this will worsen next year.

High unemployment has had a strong impact on other elements in the economy. Soaring spending for welfare benefits has been the main contributor to the government's record breaking deficits in the past two years. Economists also suspect that

unemployment is hehind the nervousness that has sent private consumption plunging much more deeply than in pre vious recessions. Consumption was off 0.2 per cent last year, and tumbled 2.5 per cent and 1.2 per cent in the first and second quarters of this year

There is an uncommon una nimity among analysts that the economy is at last bottoming out, but no one expects it

Among the leading forecasters. the Lausanne-based Crea Institute for Applied Macroeconomics and Zurich-based Centre for Research of Economic Activity (KOF) are the most optimistic. expecting GDP growth of 1.7 per cent and 1.5 per cent

seeing only a 0.9 per cent Whatever the outcome, no one expects that growth will be strong enough to reduce unemployment.

Inflation, on the other hand, has been largely wrung out of the system. The central bank expects it will drop to under two per cent by the middle of next year compared with the September rate of 3.4 per cent.

High unemployment has had a strong impact on other elements in the economy

The differences in the forecasts seem mainly to reflect differing views on the outlook for exports. The Swiss National Bank seems to side with Baer. Mr Georg Rich, director and

chief economist, says he is sceptical of the optimistic forecasts of German recovery recently published by the German institutes. The recovery, he says, is more likely to be led by private consumption, as people gradually lose their nervousness about unemploy-

The more interesting ques tion is the state in which Swiss industry will emerge from the recession. It has taken a beating in the past two years. A September survey of 200 industrial firms by Union Bank of Switzerland found that average capacity usage had dropped to 81 per cent and two thirds of the companies employed fewer people than a year ago. Only 4 per cent expected orders to rise the fourth quarter.

Moreover, there has been much moaning in Swiss industrial circles about the difficultles exporters now face. One obstacle is the strong Swiss franc, bolstered by large inflows of haven-seeking capital in the past year and supported by a fairly rigorous

The central bank, having been burnt once in the late 1980s, is hesitant to stimulate economy beyond its medium term target of one per cent growth in the monetary

In the first half of 1992, the bank was much criticised for respectively. Bank Julius Baer is at the bottom of the range, maintaining a tight grip. But since then, it has regained redibility, taking advantage of rises in the franc which have been caused by capital inflows to reduce interest rates unilat-

> The spread between German and Swiss short-term interest rates is still over 150 basis points and the franc remains strong, but the bank seems in no hurry to provide further unilateral relief.

The more worrying problem for exporters is the possibility of discrimination in European markets as a result of Switzer land's dacision last year to remain outside the European Economic Area (EEA).

Mr Rich and others believe that Swiss industrial companies have made great strides during the rscession to improve their competitives This is shown by the fact that corporate profits have remained at respectable levels.

Thus, thay should be able to absorb the marginal extra costs of border formalities that their European Union competi tors will no longer face. But discriminatory acts, especially covert ones, would be difficult

Mr Kurt Schiltknecht, man aging director of BZ Trust in Zurich, a fund management firm, is especially optimistic. People are underestimating the progress our companies have made," he says.

"Of course there will be some unpleasant surprises in Europe, but that is a challenge to produce better products Swiss companies should not be in businesses where a sale depends on a 2 or 3 per cent margin.

Mr Schiltknecht also points out that Swiss companies have aiready had some important benefits from being outside the EEA, notably the lower interest rates made possible by the large capital inflows.

lan Rodger

The market is flourishing but beware of competitors, says John Gapper

Private factor is potent attraction

THE mood among Swiss private bankers these days is a mixture of gratification and apprehension. They are gratified because asset management for wealthy individuals is now a flourishing market in spite of decades of scepticism about its future. They are apprehensive

because the boom has brought with it competition from unlikely sources, including retail banks in Europs and The strength of competition

has raised questions over whether Swiss banks, and in particular the small privatelycapitalised Geneve banks, will continue to exert their dominance over offshore private funds of \$2,100bn.

The alternative is that they will be squeezed out by other centres, and by large institu-tions which attempt to offer similar services from bases in Switzerland.

Chase Manhattan estimates that 35 per cent of private client funds are managed from Switzerland. The near-monon oly of Swiss private banks in the inter-war period has been gradually eroded. But the country's political and financial stability, traditional expertise and banking secrecy remain potent attractions, in spite of strong competition from Luxembourg and London.

"Knowing others think this is an interesting sector is a reassuring confirmation that we were right in decades when people said it was not that important," says Mr Thierry Lombard, one of six partners of Geneva-based Lombard, Odier

Competition has intensified as banks have looked at private banking as a commissionearning activity with lower capital risks than lending.

It is a fee-earning husiness with relatively good margins, and the bulk of it is off-balance sheet, so you can achieve a good return on capital," says Mr Jean Pierre Cuoni, chief executive of Coutts & Co AG. the international private banking arm of National Westminster Bank,

Banks are also encouraged by the potential growth of wealthy individuals in emerg-ing markets in Asia and Latin

assets and provide capital markets services to large corporate of scale. clients and institutional funds. can offer similar services to rich individuals at relatively

low marginal cost. Mr Georges Vergnion, chairman of Chase Manhattan Private Bank in Geneva, says that Chase's derivatives expertise and technology is one example of a transferable resource.

International banks, such as Chase and National Westminster, are unconcerned about

Maintaining competitive advantage requires a delicate balancing act

Switzerland's future as a private banking centre. "Switzerland is a booking centre, a product, for us," says Mr Cuoni. "I am not worried if

people say other centres are coming up. We are there too." The fortunes of Swiss private banks are more intertwined with the country's competitive

Yet maintaining that advantage requires a delicate balancing act. The private banks must be large and expert enough to provide clients with the enormous range of modern financial products and capital instruments. Yet, they must maintain the small-scale, personalised service that allows

them to command private cli-

among them easily. Mr Bar says that private chi-

Market share

ent fees big enough to offset larger competitors' economies

Mr Hans Bär, chairman of Bank Julius Bär in Zurich, says that the primary emphasis must be on individuals. "The margins are slim on asset management and global custodianship. It is the private client who pays the bill," he says. Mr Lombard agrees. "Wa may sell part of our expertise outside, but the bulk of our research

must be devoted to our clients," he says.

This principle is more easily enunciated than achieved. The

Swiss banks need to boost private client assets with institutional funds: 45 per cent of Lombard, Odier's assets under management are institutional This gives them an incentive to concentrate on fund rather than portfolio management devoting research to overall asset allocation instead of selecting individual mixes for

This tendency has been reinforced hy the growth in mutual funds from the US. which offers individuals the chance to diversify risk and to spread investments around dif-

ferent markets. Private banks increasingly act as intermediaries between their clients and such funds: sometimes making markets in investment fund holding to allow private clients to swap

ents have become preoccupied by fund performance. "It is less and less them asking: Is this a good bank?" People ask about the funds now," he says.

This could mean that private banking will become a "commoditised" business, with margins falling as a growing number of competitors are able to offer fund management expertise similar to the established participants.

Nor is it simple to decide which form of institutional business banks should seek.

Surveys have found that clients still value the traditions of service

Some are now having to choose between offering large corporations asset management services, or becoming global custodians that manage securities portfolios.

Calculating which option is more profitable in the long term is "a difficult call", according to Mr Patrick Odier, a partner of Lombard. Odier. Mr Vergnion argues that

such trends favour hig banks which can allow their private banking arms to draw on the expertise of other specialist activities, such as institutional fund management and capital "We have already seen some

of the smaller banks merging. Those that cannot invest in people and technology are going to be squeszed out."

Mr Vergnion believes that international banks with a oresence in Switzerland have an edge in attracting new cli-ents because much of the

emerging wealth is among entrepreneurs in Asia and Latin America Chase says that it is gaining market share, although its 31 per cent growth in assets under management, so far the

vear, includes money entrusies to it by independent adviser. The Swiss banks remain a competitive force. Survey have found that clients still value their traditions of service highly and are prepared to pay a premium for it. The snapi-cion that private banking is

merely the latest fad for some of their competitors also helps They have specialised in diet management for to long that their names and addresses alone are an adver-

"Wa are willing to render our clients' needs that is important," says Mr Odier Yet in a world where the average retail investor can buy equity options or take a stake in Venezuelan equities through

mutual fund, the Swin inks must work incre hard to demonstrate that their expertise remains a minute

John Gapper explains why cost-cutting follows record bank profits:

Spectacular returns bring big three the risk of protest

THE international boom in securities underwriting and derivatives trading has created record profits for Switzerland's three biggest banks - but the achievement could not have come at a more awkward time. As they cut costs in the competitive domestic retail market the banks now risk political and consumer protest.

The success of Union Bank of Switzerland, CS Holding, and Swiss Bank Corporation in diversifying into profitable forms of international business was rewarded spectacularly in the first half. Post-tax profits increased by 83 per cent, with trading income double that in the first half of 1992.

This gave them a respectable 13 per cent return on capital, despite domestic returns of between 5 and 6 per cent. The three have suffered from low returns in the past because they have high ratios of equity to assets. They have maintained their solidity at the expense of short-term returns. But concerns over the sustainability of trading revenue and risks associated with derivatives mean that each is trying to improve long-term profitability. This involves restructuring of domestic operations and some highly

for the future. The trading side is volatile and makes us vuinerable." says Mr Josef Ackermann, chief executive of CS Holding's

cautious provisioning against

bad debts to provide a cushion

The domestic market is characterised by high levels of competition and slim interest margins

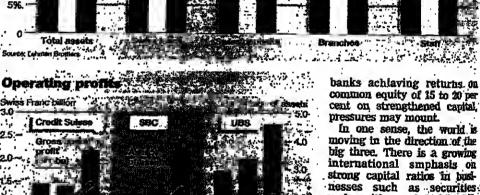
Credit Suisse. "The things which will remain with us are cuts in costs and a high level of provisions." Mr Ackermann says the big three must be cautious because the Swiss economic ontlook is uncertain.

The Swiss domestic market is characterised by high levels of competition and slim interest margins. Swiss banks also went through a period in the 1980s when they offered a large and expensive range of products to personal customers, and kept large networks of indistinguishable branches.

The banks face political problems in improving net interest margins from the current level of 1.4 per cent. They have been unable to match the rise in mortgage margins achieved in other countries because of public antagonism. Customers are also astute at not leaving interest-free depos-

This means that attention has focused on cost-cutting and simplifying products. Mr Robert Studer, chief executive of UBS, says: "In the 1980s all the banks introduced products of a sophistication that the customer did not want or understand, and certainly was not prepared to pay for." Cost-cutting has been given

impetus by the acquisition of the fourth largest bank - Swiss



Volksbank - by what was the third largest by asset size, CS Holding. It is estimated by Lehfor plain derivative products over the next few years. But the banks are optimistic

man Brothers, the investment bank, that cost-cutting could improve domestic operating profits by 15 per cent by 1995. But the CSH/Volksbank deal has also reinforced the banks' contest for size. Mr George Blum, chief executive of Swiss Bank Corporation, says his

domestic priority is to increase

market share by measures that

include buying small banks, and using unspecified new distribution channels. Mr Blum emphasises that SBC will do all it can this year to make bad debt provisions high enough to ensure a profits gain from falling provisions over the next few. "It is best for them to be as high as possi-

ble in the special circum-stances of this year to give us a totally safe base." he says. The challenges in international operations are different. The banks have gained by not making similar mistakes to those of US and European banks which expanded into loss-making retail overseas operation in the 1980s. Instead. they have concentrated on more profitable corporate and

securities businesses. The banks have gained from their derivatives strength as currency and interest rate volattlity have drawn huge dsmand from corporate customers for risk management services. SBC's derivatives liabilities and credit substitutes alone rose by about a third last year from SFr1,017bn to SFr1.544bn_

While the banks' strong capi tal is likely to help them keep their market share, concerns focus on narrowing of margins and trading risk. Mr Ackermann says that "derivatives are here to stay", but adds that he expects margins to narrow

that they can sustain interna-

External pressures could

mount to focus on higher

earning businesses so

as to raise total returns

infrastructure, we can get sta-

hla income from markets

where we've had a limited

The biggest strategic ques-

tion facing the hanks is whether they can maintain

their approach of valuing capi-tal strength at least as highly as return on equity. With US

role," says Mr Ackermann.

big three. There is a growing international smphasis on strong capital ratios in businesses such as securities underwriting and derivatives. The Basle accord on minimum capital ratios has also encouraged banks to meet Swiss stan-Nonetheless, Switzerland is

pressures may mount.

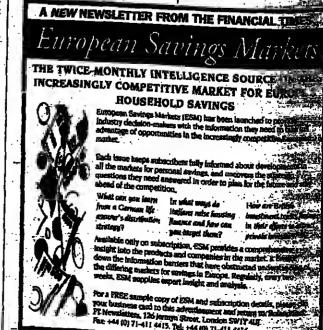
in one sense, the world is

not immune from shareholder activism, with UBS already facing a legal challenge from BK Vision, the investments conpany which holds a 15 per cent stake. There could be external pressures to concentrate on higher earning busine raise overall returns

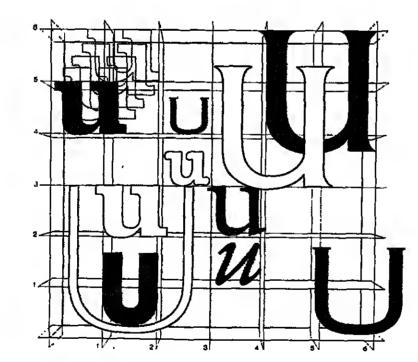
tional profits by expanding in securities and banking mar-kets where they are underde-Mr Blum says that if the veloped. "If we can expand our can produce returns more in per cent in future he salish very happy", but he hos soli regard it as the sole in the solid wa cannot, then so because is the alternative? To our capital would because that is the basis fidence in the bank.

Mr Studer says that the

he wrong to denenged of activity which contin overall profits. We as ocean steamer not a spirit on a lake, and you cannot move us as of



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HE Swiss stock exchanges finally seem to be near to the introduction of electronic trading. Mr Dieter Sig-rist, secretary of the new Swiss Stock Exchange, says the current project for developing an electronic system is on schedule to be introduced in the spring of 1995. Both on the technical side and on the political side, we are on track," Mr Signist said.

This is a considerable achievement, considering the rough ride that Swiss banks and brokers have had in this area over the past few years.

Plans for an electronic exchange in Switzerland were first outlined in the mid-1980s. At the time, seven bourses were operating in the country but intensifying competition from other European exchanges made the need to concentrate activity more pressing.

However, given the strength of regional sentiment, it was unlikely that the others would willingly cede the field to the Zurich Börse, hy far the largest of the Swiss exchanges.

The creation of an electronic exchange ... provided an elegant way of avoiding loss of face as physical location would be irrelevant to such an exchange.

Two attempts to create such a system were made in the 1980s, the more ambitious was designed by Andersen Consulting. But in late 1991, the project was suddenly scrapped. By then four of the seven

■ THE STOCK EXCHANGE

Electronic trading approaches reality

leneva and Rasie

Moreover, husiness was depressed and fixed commissions had just been abolished, leaving brokers uncertain about their future income. Many thought the Andersen project, which some said could cost more than SFr100m by the time it was installed, was extravagant

Andersen and, the stock exchanges are still in court arguing over the consultants' fees, which are expected to be between SFr20m and SFr40m

To their credit, the exchanges went back to work to design a more modest system and agreed on a plan that would be hased on one developed for Australia's stock

Ironically, the Australian system had been based on one developed for the Swiss Options and Financial Futures Exchange (Soffex) in the early 1980s. The development budget is SFr80m and

spent to date. The system will handle trading and connect to the Swiss Clearing Corporation (SEGA) and the Swiss Interbank Clearing system (SIC) for processing settle-

In preparation for the launch of the electronic exchange, a number of organisational changes bave taken place or are First, a legal association called Swiss

Stock Exchange (SSE) was established in May this year to take over responsibility for completing the exchange from the Association of Tripartite Bourses. It will also operate the exchange.

Initially, only memhers of the three existing stock exchanges are SSE members and, for legal reasons, this is likely to prevail for the initial years of operation. Direct membership will become possible as soon as one of the three founding

exchanges ceases operations, but that will

Higher yield bond issues may lure retail investors, says John Gapper

be reached in the middle of 1994

== =

only happen when the relevant canton agrees to give up its collection of taxes on securities transactions.

SSE has already taken over responsibility for trading regulations and listings from the Association of Swiss Exchanges,

which has been dissolved. Soffex, hitherto owned by the hig hanks and other exchange members, became a wholly owned subsidiary of SSE last montb. One result of this move was that Soffex last summer dropped its plans for co-operating with other European futures exchanges. Instead, it will wait and

develop an external policy together with the stock exchange. Another consequence is that the Soffex

computer system will be transferred to a new computer complex that will be set up for the Swiss eychange.

Meanwhile a new federal stock exchange law is being prepared to replace existing cantonal ones, it will probably not become fully effective until near the end of the decade and so the existing stock exchange entities and, more important, tax systems will remain in effect even after the electronic exchange has started to operate.

For competitive reasons, the SSE wants to change from the cantonal volume-based tax to transaction ones, but Mr Sigrist does not see this happening until 1997 or

The new federal law will probably leave most regulatory and surveillance matters to the SSE, at least at the initial stages with final responsibility falling on the Fed-

eral Banking Commission. For example, a suspicion of insider trading would prompt the SSE to carry out an investigation and, if it was suspicious of wrongdoing, it would pass the case on to

the commission. It has not yet been decided whether the SSE will build up its own surveillance staff or whether it will call upon companics' external auditors to carry out initial investleations.

Mr Sigrist doubts that a big staff will be necessary because few cases will arise. He points out that there are only 55 members. The electronic exchange will collect data not only on the brokers carrying out trans-actions but also on whether deals are done for customers or for the broker's own

The pace of implementation of electronic trading may seem painfully slow, but Mr Sigrist makes no apology. "We have learned by spending a lot of money doing the wrong thing," he says.

lan Rodger

THE SWISS bond market has enjoyed a second year of recovery, helped by falling interest rates and the unusual emergence of a substantial public sector deficit. The hig three -Union Bank of Switzerland, CS Holding and Swiss Bank Corporation - now dominate the lead managing of issues even more than in the days of the bond syndicate cartel. They expect another six months of strong primary activity, but

are uncertain what will follow. Some traditional characteristics of the bond market bave reappeared, following an exotic period in the 1980s which saw an ontbreak of equity-linked Japanese issues and swapped deals by borrowers without triple and double A ratings. Although volume in the first uine months of 1993 equalled that of the whole of

whether Swiss retail investors, who huy most foreign issues, will be drawn into higher yielding bonds when interest. rates fall further.

"Our investors are very conservative. I imagine that we may see some change when wahave very low rates, and they start to accept higher risk," savs Mr Jean-Luc de Buman, a

Back to traditional values first vice-president of Union foreign markets have been active. The foreign market has Bank of Switzerland. "Investors will look for higher risk again eventually. That will give people like us the chance to bring new names

or structured deals to the market," says Mr Jules Keller, of SG Warbarg Securities in But that time has not yet towards refinancing of corpo-

arrived. SFr10.9bn of foreign straight issues up to November 4 were rated AAA, while SFr8.5hn were AA, 6Fr1.9hn were AA 6Fr1.9hn were A and only 8Fr450m

last year, there has been a strates this year — govern-renewed emphasis on simplic — mant—hond yields have ity and quality, dropped from about 5.6 per The unanswered question is —cent to 42 per cent — has not yet turned the yield curve positive. This has limited the scope for foreign borrowers to tap the market through swapped issues. Only a third of foreign straight issues so far in the second half have been swapped, compared with as much as 75 per cent at times in the 1980s. Nonetheless, domestic and

been helped by liberalisation, including the abolition of stamp duty and by the end of the requirement for banks participating in syndicates to be domiciled in Switzerland. The fall in interest rates has helped the Swiss market to join in the worldwide trend

first 10 months was 72 per cent, with only Nomura Bank Most banks expect a floor in yields to

rate debt and capital raising. This activity has been matched by the domestic sector, which issued SFr29.3bn of bonds in the first 10 months compared with SPr33.5bn in foreign issues. The biggest innovations have also occured in the domestic market, including synthetic option bonds lead managed by Swiss

(Switzerland) achieving more than 5 per cent among the

Despite market liberalisa-

tion, the dominance of the big

three banks has, if anything,

strengthened since the Cartel

Commission insisted on an end

to the agreement by which

among Swiss institutions.

Their share of lead manage-

ment of foreign issues in the

This is largely hecause of their immense placing power with Swiss retail investors, which allows them to operate profitably in a market where underwriting fees are virtually given away in issue pricing. Allegations that the big three Bank Corporation, offering options on Zurich Insurance also gain by being able to "stuff" their investors' portfolios have largely disappeared equity in the case of a SFr154m issue for the City of as competition among them has stiffened following the end

of the cartel.

are not opening up their market, I say: 'What can you contribute? What can you offer?"." says Mr Hans Rudolf Zehnder. the head of syndicate and primary sales at Credit Suisse. He argues that the big three banks have "a unique situation" in the Swiss market hecause it is dominated by retall investors that only they cao reach throngb their investment networks.

"If someone says the Swiss

Opinions vary on whether the big three have also been helped in to gaining market share by the rise in volume this year. Some competitors say that their placing power allows them to take the risk of mispricing an issoe without hecoming over-stretched. But others acknowledge that the fall in interest rates has reduced the obstacles to competitors with less placing power clearing an issue.

Whichever is true, the big three's dominance of underwriting raises the question of whether they will sustain losses next year as short-term rates reach a floor and they face difficulties in distributing the whole of the most aggressively priced issues.

Most banks expect a floor in yields to be reached in the middle of 1994. When it happens, primary activity may subside, although the emergence of a mildly positive yield curve is likely to sustain investment in medium-term and long bonds and improve conditions for swapped issues. Banks are also preparing for a structural shift towards higher yielding bonds.

It is not only hanks ontside the big three that want to encourage this. Mr de Buman of UBS says the market must protect itself against a slackening of supply by persuading investors to consider issnes ontside the bigher investment grade "religion".

But the big three know that the wider the spread of issuers, the more competition they will face from other lead managers. One of their stroogest protectioos agaiost losing market share is their expertise In derivatives, which has already allowed them to structure innovative domestic issnes, and will be belpful if greater interest lo swapped foreign issues emerges next

Volume hits new highs

DERIVATIVES

WITH interest rates cut by half | lor-made option packages, "We in the past year and share prices up 40 per cent, it is bardly surprising that Swiss franc derivatives markets have been booming in recent

The Swiss Options and Financial Futures Exchange (Soffex) hit an all-time high volume on October 15, with 151,231 options contracts traded, and by the end of Octo-ber, volume traded bad surpassed last year's 15.tm futures

and options traded.
In the listed options market, trading volume is oow more than SFr200m a day, and OZ Zurich Options and Futures, one of the most active specialists in this market, has just reported that its net income doubled in the first nine months to SFr21.5m.

Over the counter volume has more than doubled too, according to Swiss Bank Corporation, the leading designer of tai-

have had a perfect environ-ment," an SBC derivatives specialist, said.

Market participants have noticed a significant deepening of the markets, with not just the big Swiss banks, but also US investment banks, such as Merrill Lynch and Goldman Sachs becoming more bighly active.

One consequence of the buoyant conditions is that the competitive tensions among the three elements of the Swiss derivatives scene appear to have relaxed, with increasing recognition in the various camps that there is a role for

it has also been a year of innovations, Since April, the top 50 warrants in the listed market have been traded contlnuously, and the list is adjusted weekly.

Continued on page 4

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GENEVA STOCK EXCHANCE

YOUR GATEWAY TO THE SWISS ECONOMY

Georgia After the Fall Challenges for Latin America Eritrea faces the Inture The Quiet Renaissance of American Industry

■ PUBLIC FINANCE

Alarm bells ring

SWISS governments, normally models of fiscal rectitude even to the point that the government bond market until recently was chronically duli have recently found things going badly wrong.

In 1990, the aggregate deficit of all three levels of government was a piffling SFrl.9bn, or about half of 1 per cent of gross domestic product. This year it will exceed SFr11bo and government lesders are

starting to ring the alarm bells. The main cause of the soaring deficits is the high level of unemployment which has forced governments to sharply increase their welfare payments. In previous reces unemployment tended to stay relatively low as guest workers from the labour market and many men were too embard to register for the dole.

Ashamed of their treatment of guest workers, the Swiss authorities have eased the conditions under which they could obtain permanent visas. The result is that few have gone home during the current recession, and the unemployment rolls have swelled from a few thousand in 1990 to 170,000

If that were the end of the story, everyone would attribute the bloated deficit to cyclical factors and not worry too much about it. But simultaneously a structural deterioration in public finance has also

According to Mr Otto Stich, the federal finance minister. only half of this year's federal deficit, which is now expected to exceed SFr7bn - more than double the initial estimate - is attributable to the recession.

"Even after the economy recovers, the deficits will

remain high," he complained

at a recent press conference.

The problem has been one

common to governments every-

where, with politicians approv-

ing popular spending pro-

see if the funds are available.

The main cause of

soaring deficits is high

unemployment

tightening last year. It is also

counting heavily on public sup-

port in a referendum on

November 28 to boost revenue

by introducing a modest but

universal 6.5 per cent value

added tax to replace a more

But even with these mea-

sures, Mr Stich warned that

the prospect for the next few

years was for total public sec-

selective turnover tax.

es without checking to

tor deficits in the order of 4 per cent of GDP and the net public sector debt hovering around 40 per cent of GDP.

While these ratios are still relatively modest by international standards. Mr Stich a socialist, raised the awful spectres of the government's credit rating being questioned and its financing requirements crowding out more worthy private sector borrowers.

The former may be plausible, but the latter is most unlikely given the extraordinary size of Swiss capital markets. Certainly, the government's large current demands have not prevented long-term interest rates from falling to close to four per cent, and no one apart from Mr Stich seems worried about a reversal of the trend.

In any event, the federal government is now embarking on another cost-cutting pro-gramme, this time focused on some of the more sensitive Items in the budget, including transfers to the cantonal governments and the indexation of public servants' salaries. The cantonal governments

are now expected to put pres-The federal government undertook a round of helt sure on the communes, but they will point out that some 70 per cent of their spending is termined by cantonal laws. Mr Stich claimed the new proposals would reduce the

annual deficit by SFr1.5bn by

1997 and by SFr2bn in the lon-

With this kind of zeal being displayed so early in the descent into excessive debt, it seems unlikely that Switzerland will ever become a concern of the International Monetary Fund. But the last word, as always in this country, will

be with the voters.

t's amazing the image Switzerland has", reports

Carlos Niemeyer, Private Banking, UBS, "Clients think it an ideal

place: beautiful scenery, a healthy outdoor life and solid as a rock.

They couldn't think of a safer place for their portfolio. When I mention AAA, and that only a handful of banks worldwide can

boast it, they don't but an eyelid. They take it as just one more

confirmation of the leading Swiss bank.

Better recognition of portfolio management is the aim of a newly-established institute

In need of the professional touch

SWISS banks are estimated to manage about half the world's international portfolio busiess and European institutions, as a whole, a good deal more. Yet, unlike their American connterparts. Europe's financial circles have been slow to recognise portfolio analysis as a profession in its own right requiring special skills and qualifications

Most of those now tending other people's money - In banks, pension funds, incuranies or asset manance com agement institutions - have earned what they know on

Mr Thierry Lombard, a partner in the private bank of Lombard Odier, and his colagues in the Fondation Place Financière in Geneva hope to change all that. In September this year the FPF and the Parof Financial Analysts' Societies (EFFAS) set up the European Institute for Financial Analysis and Portfolio Manent, with the aim of promoting high profes dards and qualifications throughout Europe, stimulating research and encouraging the exchange of ideas between the profession and academia.

"The European investment business needs competent professionals," says Mr Lombard, adding that creation of the institute "should lead to more efficient and safer investments". He would like to see something equivalent to the American diploma of Chartered Financial Analyst. widely held in the US and increasingly exported around the world.

Mr Lombard, who chairs the FPF, set up two years ago by the Geneva stock exchange to

promote Geneva as a financial centre, also hopes that establishment of the institute will strengthen the city's reputation as an international centre for asset management. This forms part of the FPF strategy. to find a distinctive role for Geneva when the open-outery exchange shuts down in 1995 to be replaced by a nationwide electronic bourse system.

The institute will co-ordinate training and act as a catalyst for new Initiatives

The city is now home to some 200 financial companies employing 20,000 people, including most of Switzer-

land's private banks. The institute itself will not train students, but will co-ordinate current efforts and act as a catalyst for new initia tives. Among its first priorinetwork of experts to aid EFFAS in designing and Improving European-wide standards and qualifications. Including the exchange of teaching and examination materials. The institute also plans itself to develop specialised training conrses, refresher courses and seminars on new financial developments, such as new derivatives products or the latest portfolio

management techniqu In addition, the institute will sponsor publications and conferences, and support exchanges of ideas and information, including the translation of publications for broader distribution, (EFFAS' member societies use 12 different languages.) It has already initiated work on a comprebansive guide for portfolio managers on taxation of investments throughout are required to be broadly Europe, which it hopes to publish early next year.

One of its most important tasks, says Mr Lombard, will be to improve exchanges between theorists and practitioners, for instance to harness recent academic work on portfolio theory to develop advanced asset management techniques.

"If we managed only to halve the gap between academic research and profes-sional techniques, that would be a very high achievement,"

For the time being, the institute is staffed by one part-time director, Mr Philippe Sormani, and a full-time assistant. The work will be done mostly by members of the institute's founding organisations, the FPF and EFFAS, or by outside professionals and academics. The FPF has given the institute a cash primer of SFr1.3m. apart from which its activities self-supporting. Training of European finan-

cial analysts and portfolio managers has already made rapid progress over the past few years under the auspices of EFFAS, which has member societies in 17 European countries covering 10,000 professionals. In 1986 RFFAS established a training and qualification committee to lay down qualification standards that could be recognised across Europe. In 1990 it set up an accreditation board to

certify the national courses being offered. The emphasis has been on post-graduate training leading to an advanced diploma qualification. Switzerland and Britain were the first to be accredited by EFFAS; they have since been fellowed by the Netherlands, France, Norway and Austria between

them turning out about 500 newly qualified students a

Mr. Lombard thinks it will soon be standard practice to require qualifications for new entrants to portfolio management, and to enrol existing staff on refresher courses. Given the speed at which financial activities are evolv. ing, financial professionals like doctors - need to master the new developments in new products or new market regulations", he says. Companies will see a competitive advantage in better qualified staff.

At the same time, he does not believe more universal qualifications will make competition any less intense. There is a world of difference between acquiring the basic language and knowing how to use it skilfully", he says. "But you need the first to learn the

Frances Williams

PROFILE: BZ

Narrow tocus a winner

FOR most of its astonishingly successful eight-year life, the BZ investment banking group in Zurich has kept a low pro-file. Mr Martin Ebner, the driving force behind the group, has preferred to concentrate on leading his tiny band of traders and analysts to pile up profits for clients and, of course, for the hank tiself.

So far it has been a winning formula, with the bank showing a net income of SFr59.5m (\$41.90m) last year and Mr Ebner, a former equities analyst at Bank J Vontobel, appearing regularly in the lists of the wealthiest Swiss. The group's strategy has been to focus its attention narrowly. It has only a dozen main institutional clients, it follows closely only about 30 Swiss shares, and it issues and trades warrants in even fewer of them.

It scored an early success in 1987, issuing covered warrants on registered shares of Swiss companies. At the time, foreign investors were not allowed to buy these but most reckoned prohibition would soon end. This happened, but the warrants are still popular among some investors for their tax

As it has grown, BZ has diversified into fund management, but again has focused narrowly. In 1991, it took over Pharma Vision 2000, a sleepy investment trust with holdings in pharmaceutical and chemical shares. It pared Pharma Vision's holdings down so that its SFr24bn portfolio is now made up of securities of only three Swiss companies: Roche, Ciba and EMS-Chemie. In the same year, it formed a similar trust, BK Vision, for banking shares, and roughly two-thirds of its SFr2bn portfolio is in Union Bank of Switzerland shares and options. BK is by far the largest single shareholder of UBS, Switzerland's biggest bank, with a 15 per cent stake.

In both cases, the trusts were able to achieve large scale status quickly because BZ institutional clients were willing to put their holdings into them in

return for Vision shares. By late last year, the BZ group had reached a size at which it was increasingly diffi-cult to keep a low profile, especially as three of its vehicles the two Visions and its derivatives subsidiary, OZ in Zurich Options and Futures, were quoted. Moreover, Mr Ebner egan to fulfil his commitment that the Visions would be active shareholders, trying to influence the management of influence the manage companies in which they had holdings.

In December, BK Vision indicated publicly that it was unhappy with a USS beard decision not to renominate Mr Christoph Blocher, a controverslal industrialist politician, to its ranks. This was a delicate case as Mr Blocher, the chair-

BZ's claim to fame is its ability to raise and make huge amounts of money

man of RMS-Chemie and of Pharma Vision, was clearly a BZ ally. Yet the UBS move looked like spite against Mr Blocher's isolationist politics. in the end, BZ pulled its punch, but UBS lost face. In June, BK Vision returned

against the creation by UBS of chares that could be used to make acquisitions without prior approval by shareholders. This time, it struck a responsive chord in Swiss financial circles, where it was widely felt that UBS had stretched the meaning of recent company law reforms beyond a reason-able limit. UBS responded constructively, saying it welcomed the opportunity to clarify the law. For its part, Pharma Vision has begun to grumble about the lacklustre perfor-

to the attack, filing a legal suit

mance at Ciba. But BZ's main claim to fame is still its ability to raise and make huge amounts of money. So far this year, BK Vision has raised SFr220m and Pharma Vision SFr310m in rights issues. A third investment

trust, Gas Vision, to specialise

panies, was launched in August raising SFr500m. Meanwhile, BZ Trust, a

group offshoot which manages Visions, has made astronomical commissions from them. BZ uses a formula that provides for no commission unless the Vision shares grove more than 6 per cent, but then for sharply rising fees. In the first half of this year, it earned SFr140.4m from Pharma Vision and SFr132.7m from BK Vision. Mr Ebner's latest enthusiasm

is for company share buybacks. He says it is better to distribute excess capital than venture into risky diversifications. He started working on the techniques two years ago when looking for tax efficient ways for EMS-Chemie to pay dividends. One was to pay back a portion of the nominal share capital, which Ems did last year in lieu of paying a divi-

This year, EMS took a bigger step, buying back and cancelling 36 per cent of its bearer shares, distributing SFr550m back to shareholders. Société Générale de Surveillance, the cash-rich Geneva based inspection group, followed with a similar programme to distrib-ute SFr216m, but sald it had not been advised by BZ.

BZ recently announced that its OZ subsidiary would launch a buy-back programme via partial redemption of its nominal BZ officials have begun floating the idea that mighty UBS should join the trend, although they recognise that in the case of a bank, a delicate balance must be struck between maintaining sufficient capital and producing good returns on it.

The time has long since passed when sceptics could say that the BZ group was a meteor that would quickly burn itself out. But equally, it remains to be seen if it can continue to spin gigantic profits for itself and its clients out of financial engineering on a small number of securities.

lan Rodger

Volume hits new highs

Continued from page 3 Mr Balz Merkil, managing director of OZ, says the change has encouraged the big issuers to trade their warrants on the stock exchange rather than pri-vately in the hope of joining In the OTC market, SBC

raised evebrows by introducing

products linking syndicated bonds with equity derivatives. In October, for example, it ed a SFr154m bond issue for the city of Zurich that was coupled with warrants for Zurich insurance shares, leading some to wonder if the city was back-

vice versa. "The point is that you can sell these packages even to very conservative funds," an SBC official said. At Soffex, the most welcome

ing the insurance company or

change was a 20 per cent average reduction in commissions early in April. The exchange, which cele-

brated its fifth anniversary in June, has continued to adjust its product offerings. Notably it withdrew an interest rate future on a synthetic bond when federal government borrowings became large enough to support a real bond future. The so-called CONF future, become a solid performer with roughly SFr700m open interest, and an option on it is to be launched next year.

Soffex is also planning to introduce long-term share options within the next few

Mr Otto Nägeli, chief execu-tive, says he is thinking in terms of two to three year contracts on the six top Swiss shares and the SMI index. Mr Nägeli acknowledges that

this move is not universally supported by Soffex members at the momant, and that it would put Soffex to an extent in competition with listed options on the stock exchanges. "It is partially stepping into

the quoted warrant area," he said. But be argues that it would open up to medium sized members the possibility of making writing long term options, a business that is now restricted to the strongest

But Soffex cannot compete with its members. If they do not want it, it won't happen,

lan Rodger

LES FILS DREYFUS & CIE SOCIÉTÉ ANONYMI: BANQUILERS-

MAISON FONDER IN 1813

16. AESCHENVORSTADT

Not banking as usual.



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